

**A STRATEGIC EVALUATION OF THE DEVELOPMENT OF A NEW PRODUCT**

**BY**

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**Submitted in partial fulfilment of the requirements for the degree of  
MASTERS IN BUSINESS ADMINISTRATION**

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**August 2004**

01 July 2004

**TO WHOM IT MAY CONCERN**

**RE: CONFIDENTIALITY CLAUSE**

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five years.

Sincerely



Christopher Grant Lemmon

096933

## DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed: September 2004

Date: Seen

## **ACKNOWLEDGEMENTS**

I would like to take this opportunity to thank the management team of Monitored Healthrisk Managers for their overwhelming support of this dissertation. Not only did they provide me with the relevant information but also went further to provide valuable insight into the challenges currently faced by their organisation. This helped enormously in the creation of a meaningful case study able to contribute to their current strategic analysis processes. I would also like to thank Professor Thomson for her guidance in terms of the completion of this dissertation.

## **ABSTRACT**

An effective strategic management process is vital to the continued success of any organisation. As competition mounts within markets globally, the pressure on organisations to succeed continues to mount. This paper attempts to analyse the situation of a small firm in the South African market. It recognises the challenges faced by this organisation while critically assessing the strategic choices made by this firm in its attempts to continue on its current growth path. In particular, this paper assesses the strategic initiative of the development of an attendance management program to address the identified strategic gaps within Monitored Healthrisk Managers. This assessment excludes an analysis of the current market for such a product, it is presumed that such a market exists, but rather attempts to analyse the position of MHM itself to see whether it has the necessary resources to undertake such an initiative. In particular, this paper assesses the strategic choice using an abstract of the model developed by Johnson & Scholes to analyse the strategic option using criteria supporting the suitability, acceptability and feasibility of the development of the program. This research is intended to provide a critical assessment of the program which will be used in a report to the management team of MHM serving to illustrate the viability of such an undertaking.

# CONTENTS

<b>CHAPTER 1 .....</b>	<b>1</b>
<b>1.1 INTRODUCTION .....</b>	<b>2</b>
<b>1.2 BACKGROUND &amp; CONTEXT .....</b>	<b>3</b>
<b>1.3 MOTIVATION FOR THE RESEARCH .....</b>	<b>4</b>
<b>1.4 VALUE OF THE PROJECT .....</b>	<b>5</b>
<b>1.5 OBJECTIVES OF THE STUDY .....</b>	<b>6</b>
<b>1.6 PROBLEM STATEMENT .....</b>	<b>6</b>
<b>1.7 THE RESEARCH METHODOLOGY .....</b>	<b>7</b>
<b>1.8 RESEARCH LIMITATIONS .....</b>	<b>9</b>
<b>1.9 RESEARCH STRUCTURE .....</b>	<b>10</b>
<b>1.10 SUMMARY .....</b>	<b>11</b>
<b>CHAPTER 2 .....</b>	<b>13</b>
<b>2.1 INTRODUCTION .....</b>	<b>14</b>
<b>2.2 WHAT IS CORPORATE STRATEGY? .....</b>	<b>16</b>
<b>2.3 THE ORIGINS OF CORPORATE STRATEGY .....</b>	<b>18</b>
<b>2.4 STRATEGY DEVELOPMENT .....</b>	<b>22</b>
<b>2.5 THE PRESCRIPTIVE APPROACH TO CORPORATE STRATEGY .....</b>	<b>24</b>
<b>2.6 THE EMERGENT APPROACH TO CORPORATE STRATEGY .....</b>	<b>28</b>
<b>2.7 ASSESSING SUITABILITY, ACCEPTABILITY AND FEASIBILITY OF STRATEGIC OPTIONS .....</b>	<b>32</b>
2.7.1 A SUITABILITY ASSESSMENT .....	33
2.7.1.1 <i>Life cycle analysis</i> .....	35
2.7.1.2 <i>Positioning</i> .....	37
2.7.1.3 <i>Value Chain Analysis</i> .....	37
2.7.2 AN ACCEPTABILITY ASSESSMENT .....	40
2.7.2.1 <i>Analysing Return</i> .....	43
2.7.2.2 <i>Analysing Risk</i> .....	47
2.7.3 ANALYSING FEASIBILITY .....	49
<b>2.8 SUMMARY .....</b>	<b>52</b>
<b>CHAPTER 3 .....</b>	<b>53</b>

<b>3.1 INTRODUCTION .....</b>	<b>54</b>
<b>3.2 CORPORATE BRANDING .....</b>	<b>57</b>
<b>3.3 MHM'S PRODUCT RANGE.....</b>	<b>59</b>
<b>3.4 CURRENT STRATEGY .....</b>	<b>60</b>
3.4.1 SUITABILITY – CURRENT OPERATING CONDITIONS.....	60
3.4.1.1 <i>The Attendance Management Program</i> .....	61
3.4.2 ACCEPTABILITY – RISK AND RETURN.....	64
3.4.3 FEASIBILITY – MHM'S RESOURCES AND COMPETENCIES .....	68
<b>3.5 CONCLUSION.....</b>	<b>69</b>
<b>CHAPTER 4.....</b>	<b>71</b>
<b>4.1 AN ASSESSMENT OF SUITABILITY .....</b>	<b>72</b>
<b>4.1.1 LIFE CYCLE ANALYSIS &amp; POSITIONING .....</b>	<b>72</b>
4.1.2 VALUE CHAIN ANALYSIS .....	74
<b>4.2 AN ASSESSMENT OF ACCEPTABILITY .....</b>	<b>77</b>
4.2.1 ANALYSING RETURN.....	77
4.2.2 ANALYSING RISK.....	80
<b>4.3 AN ASSESSMENT OF FEASIBILITY .....</b>	<b>86</b>
4.3.1 RESOURCE DEPLOYMENT ANALYSIS .....	86
<b>CHAPTER 5.....</b>	<b>92</b>
<b>5.1 INTRODUCCION .....</b>	<b>93</b>
<b>5.2 BENEFITS OF IMPLEMENTING THE PROGRAM .....</b>	<b>94</b>
<b>5.3 ADVANTAGES OVER COMPETITIVE PRODUCTS.....</b>	<b>96</b>
<b>5.4 LIMITATIONS OF THE PROGRAM.....</b>	<b>98</b>
<b>5.5 CONCLUSION.....</b>	<b>100</b>

## LIST OF TABLES

Table 2.1 The development of Corporate Strategy in the 20th Century	21
Table 3.1 Cost Estimates	66
Table 4.1 Discounted Cash Flows	77
Table 4.2 Cost of absenteeism Calculator (the what-if tool)	82
Table 4.3 What-if Analysis results	84
Table 4.4 Resource Deployment Analysis	87

## LIST OF FIGURES

Figure 2.1 The Prescriptive Strategic Process	25
Figure 2.2 The Emergent Strategic Process	30
Figure 2.3 Testing Suitability	34
Figure 2.4 Arthur D Little's positioning matrix	36
Figure 2.5 Porters Value Chain Analysis	39
Figure 2.6 Assessing the Acceptability of Strategies	42
Figure 2.7 Strategic Analysis Model	51
Figure 3.1 MHM Corporate Brochure	58



# **CHAPTER 1**

## **INTRODUCTION**

## **1.1 INTRODUCTION**

With true democracy in 1994 and the subsequent opening of South African markets to foreign competition, South African businesses have been placed in a competitively intensifying environment. As the challenge from global competitors mount, South African executives have been forced to critically analyse their businesses to help align business models, infrastructure and strategies to ensure that they remain afloat in difficult trading conditions. While many have welcomed the influx of competition into the South African market, the reality of capitalist competition has seen the demise of many fledgling businesses. It is difficult to fault the benefits that increased competition brings to the consumer (higher build quality, lower prices, enhanced customer service etc), but these benefits of course come at a price.

With this in mind, the need for strategic analysis and expertise has become of paramount importance to the South African business. It is within this context that one has seen the plethora of new MBA degrees mushrooming within South Africa. More and more senior managers and executives have been placed under increasing pressure to equip themselves with the tools needed to guide their businesses into the future.

This dissertation continues in this vein with an emphasis on the strategic impact of product development choices faced by a South African business (Monitored Healthrisk Managers - MHM). MHM has identified potential shortcomings within its current strategic model and has actively taken steps to bridge these gaps. What follows is an analysis of where these gaps lie, what the underlying contributing factors are to these gaps and how best to effectively resolve them to ensure MHM's continued profitability.

## **1.2 BACKGROUND & CONTEXT**

Monitored Healthrisk Managers (MHM) is a niche service provider operating within the medical aid/wellness industry in South Africa. MHM is a joint venture company with Managed Healthcare Systems (MHS) and Bay Union Financial Services its two primary shareholders. Created initially as a response to demand conditions arising in the medical aid industry, MHM has continued to expand its product offering to encompass both the corporate and sporting sectors.

MHM has two primary categories of product offerings. The first is a managed healthcare service offered in conjunction with MHS's existing services provided to medical aids. This service, supported primarily by nurses and overseen by a doctor, covers the rational and cost effective use of medical aid resources by medical aid members. These members are clinically profiled and targeted based on their current high expenditure status. Encompassing both a wellness and clinical arm, this service is designed to educate members on how to effectively utilise the services offered by their medical aid, but also how to change their behaviour to lead a healthier lifestyle.

The second is a variety of wellness initiatives. These products cover areas such as electronic lifestyle programs, health days, health risk assessments and a variety of other programs. These products are targeted primarily at large corporates who have the staff numbers and resources to make the implementation of these products viable.

While MHM has successfully managed to diversify its product offerings, it has not been able to find a product that can seamlessly integrate all of its products. As would be expected with an extensive product range, MHM has clients across a number of industries. However, MHM has not managed to cross-sell its products effectively within its current markets, the result being that only a superficial relationship has been developed with the majority of its clients. As competition

within this sector continues to grow, MHM has acknowledged the need to address this as a strategic gap. This coupled with the South African government's insistence on further regulating Medical Aid schemes, their administration, the prices of medicines etc means that there is increasing pressure on MHM to develop a core product that can sustain its income. At present the majority of MHM's income is derived from their interventions in the medical aid industry, an area that seems increasingly under threat.

The focus of this dissertation is to assess the effectiveness of the development of a product that addresses the issues raised above. MHM's attendance management program has been earmarked as the product that will sustain profitability into the future.

This paper will look to critically analyse the strategic impact of this product. The strategy framework as developed by *Johnson & Scholes*, will be used to evaluate the impact of this product within the confines of MHM's operations. The analysis will cover such areas as strategic analysis and options generation, an assessment of suitability, an assessment of acceptability and finally whether the launch of this attendance management program is feasible or not.

### **1.3 MOTIVATION FOR THE RESEARCH**

As a relatively small company operating within the South African economy, it is crucial for MHM to position itself correctly in the marketplace. While enjoying the backing of two strong partners (being MHS, the largest independent managed healthcare organisation in South Africa, and Bay Union Financial Services, a well respected financial consulting firm and brokerage), it is imperative that MHM positions itself in a niche that allows it to compete with the international players in the South African market.

MHM has already embarked on the process of strategic analysis, having identified key areas for success and generated implementation plans accordingly. The role of this research is to determine whether the answers reached are in fact feasible. Ultimately, the value of this research project is to ensure that MHM continues down the correct path in order to sustain its profitability. This research will form the basis of a report to the board of directors highlighting identified strategic gaps, if any, and recommending ways of overcoming such issues.

#### **1.4 VALUE OF THE PROJECT**

As previously mentioned, MHM is currently in an unfavourable strategic position and needs to take active steps to ensure that it remains profitable in the future. With a heavy reliance on the medical aid industry currently contributing to this precarious position, MHM needs to expand its influence into the corporate sector, a potential revenue stream that appears to be sustainable in the future. An added advantage being that this sector is less heavily regulated in terms of operations than the medical aid industry.

In its primary form, this study attempts to provide a rounded understanding of exactly where MHM needs to focus from a strategic perspective. It serves to highlight the need for strategic change and then to assess whether a newly developed product (the attendance management program) is the vehicle to drive this strategic change forward.

This study will serve as the basis of a report to management to help stimulate further thought on the feasibility of pursuing such a strategy given local trading conditions.

### **1.5 OBJECTIVES OF THE STUDY**

The objective of this study is to critically assess the feasibility of MHM's strategy to launch a new product into the market to overcome identified strategic gaps. The analysis will attempt to provide a detailed understanding of what aspects of the attendance management program are of key importance in overcoming problems currently faced by MHM.

The attendance management program has been designed to be able to seamlessly integrate all of MHM's product offerings. Particularly when selling a concept which is not clearly defined within the market place, a concept such as wellness, a product offering needs to be concise and effective. MHM's approach has been to sell the attendance management program as the key point of entry, with the host of other products developed by the company sold as "plug-ins" to the attendance management program. In this way, the concept of wellness is sold through the management of absenteeism, a concept which is already clearly defined within the minds of South Africa's corporate executives.

### **1.6 PROBLEM STATEMENT**

Ultimately the objectives of this research can be summarised in one question: Does the attendance management program as designed by MHM have the capability to be able to bridge recognised strategic gaps in the organisation? The capability of the attendance management program will be assessed using the evaluation criteria of suitability, feasibility and acceptability.

## **1.7 THE RESEARCH METHODOLOGY**

Qualitative research involves the exploration of concepts. Rather than focusing on specific hypotheses analysed using correlations, qualitative analysis looks to explore issues not easily quantifiable. Qualitative forms of research have up until recently been questioned on their contribution towards the discipline of research. The principle reason behind this lies specifically in the methodology used to develop a qualitative research study, as well as the conclusions drawn based on this method. Criticism often levelled at qualitative research is the fact that a researcher's bias plays to important a role in the determination of results of a particular research study. This criticism is effectively dealt with by Mellon (1990) where he confirms;

Total objectivity is impossible for researchers who are, after all, human beings. The difference between the two research traditions is not that one has and one lacks objectivity. The difference is that naturalistic researchers systematically acknowledge and document their biases rather than striving to rise above them.

Strauss and Corbin (1990) define qualitative research as any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification.

Hoepfl (1997) goes on to describe the difference between qualitative and quantitative research as follows, "Where quantitative researchers seek causal determination, prediction and generalisation of findings, qualitative researchers seek instead illumination, understanding and extrapolation to similar situations. Qualitative analysis results in a different type of knowledge than does quantitative inquiry.

While this separation appears to be distinct, there are many instances where both quantitative and qualitative methods can serve as complimentary techniques to analyse certain situations.

Qualitative research is embodied by a number of key features, summarised by Hoepfl (1997) into 8 primary characteristics;

1. Qualitative research uses the natural setting as the source data. The researcher attempts to observe, describe and interpret settings as they are...
2. The researcher acts as the human instrument of data collection.
3. Qualitative researchers predominantly use inductive analysis.
4. Qualitative research reports are descriptive, incorporating expressive language and the "presence of voice in text".
5. Qualitative research has an interpretive character, aimed at discovering the meaning events have for individuals who experience them, and the interpretations of those meanings by the researcher
6. Qualitative researchers pay attention to the idiosyncratic as well as pervasive, seeking the uniqueness of each case.
7. Qualitative research has an emergent (as opposed to predetermined) design, and the researchers focus on this emerging process as well as the outcomes or product of the research.
8. Qualitative research is judged using special criteria for trustworthiness.

Within the context of the objectives of this study, it is evident that qualitative research provides the ideal opportunity for the exploration of MHM's strategic position as well as the response it has chosen to address concerns raised due to this position. This research will take the form of a case study. The explorative nature of this research proposal allows for the evaluation of practical strategic issues currently faced by the organisation. The formation of the case study is based on issues currently faced by MHM. The case study will be critically



analysed using a variety of strategic frameworks to determine whether the final strategic choices satisfy the criteria of acceptability, suitability and feasibility.

Information will be gathered using a number of techniques, but primarily through management meetings and interviews with the directors of MHM. In my role as general manager, I am continuously involved in the day-to-day operations of the company, faced with strategic choices and decisions as part of my responsibilities. These experiences will also be used to develop the case study and ultimately assess the current strategic direction of the firm. A variety of primary and secondary sources will be reviewed including items such as internal IT product specifications, management minutes of meetings and various internal documents including the company profile, vision and mission.

Secondary sources of information such as journals and textbooks will be analysed to ensure a theoretically sound model is put forward to assess the strategic options as presented by MHM. While a variety of information will be assessed, the primary framework upon which the analysis of the case study will take place is that as developed by *Johnson & Scholes*, with particular reference to their criteria surrounding suitability, acceptability and feasibility.

## **1.8 RESEARCH LIMITATIONS**

While every attempt as been made to ensure that this research is as comprehensive as possible, certain limitations are unavoidable. Inclusive in this are factors such as time constraints, limitations on resources and limitations on available information. Particularly when analysing the acceptability of the launch of the attendance management program, a number of the financial projections have had to be estimated due to lack of verifiable information. Cost estimates have also proved difficult to verify without any definitive understanding of utilisation rates of the product.

Encompassed in this research proposal is the assessment of a particular product (in this instance the attendance management program) to help MHM overcome identified strategic weaknesses. Due to a lack of time and resources, no research has been done to confirm the state of the market for this product in the South African economy. While MHM has undertaken such a study in the past, the penetration of the research questionnaire was poor. It is acknowledged that the results of such a superficial study are difficult to impose on an entire population, but due to time constraints no verification of these results was possible and as such the results have been presumed to be correct.

A vast amount of information has been written on corporate strategy and its implementation within industry. It would be impossible to attempt to cover all of this information as part of this research project. In order to overcome this the author has endeavoured to cover as wide a variety of sources as possible, while focusing on those aspects of corporate strategy applicable to this case study.

## **1.9 RESEARCH STRUCTURE**

In order to ensure continuity and readability, the structure of this research study has been detailed;

### **Chapter 2**

This chapter encompasses the literature review. A general review of strategy and its application will be done before focusing on the specific framework that will be used to analyse the MHM case study. This framework, as previously confirmed, is that as prescribed by *Johnson & Scholes*.

### **Chapter 3**

Chapter 3 entails a comprehensive report on Monitored Healthrisk Managers and their current strategic position. The development of the

case study covers not only company history but also the path taken in terms of their initial strategic assessments, as well as the background to the development of the attendance management program and the rationale for its development.

#### Chapter 4

An evaluation of the choices made by MHM will be done in this chapter. The case study will be analysed using the strategic model developed in Chapter 2. It is important to note that the trigger for strategic change falls outside the scope of this assessment but rather the choices made once this trigger had been recognised. Ultimately this chapter will determine whether the development and ultimately the launch of the attendance management program was the correct strategic option in response to identified strategic gaps.

#### Chapter 5

No analysis would be complete without associated recommendations. This chapter effectively presents the results of the research and highlights any differences in recommended actions to be taken. Based on these differences, suggestions will be made to ensure that MHM takes decisive corrective steps to ensure sustained growth.

### **1.10 SUMMARY**

This research project attempts to add value to the operations of Monitored Healthrisk Managers. A case study approach has been used in order to effectively assess the operations of MHM. Strategic analysis and decision making is not a concept that is new to MHM. The role of this study is to determine whether the strategic path on which they have currently embarked is in fact the correct path.

This study unpacks the concepts surrounding strategy and the role that strategic decision making has to play in order to ensure long-term sustainability. This information is then applied in the MHM context to strategically analyse the choices made by the board of executives. In particular, the choice to develop and launch the attendance management program will be analysed. Of key importance in this analysis is the following:

Are the strategic gaps as identified by MHM correct? Is the development of the attendance management program the correct response to these strategic gaps? Does this program have the capacity to address those issues as previously identified? Is there sufficient market space in South Africa for this product to be effective?

Based on this analysis a number of recommendations will be presented outlining the way forward for Monitored Healthrisk Managers. These recommendations will form the basis of a report to MHM's board of directors for consideration and ultimately incorporation into future strategic decision making processes.

## **CHAPTER 2**

# **STRATEGY IN CONTEXT**

## **2.1 INTRODUCTION**

A thorough examination of corporate strategy is in itself an extensive undertaking. Particularly when looking at a field that has been so widely covered, there are often a number of contradictory views available in the literature. Contributing to this plethora of views is the wide variety of applications that corporate strategy can fulfill within industry. From fortune 500 companies listed on the New York Stock Exchange to the sole proprietor operating from the streets of South Africa, strategy has a role to play.

Perhaps what makes this field of study even more interesting is the fact that it is not an exact science. There is seldom a case where a blanket strategy can be applied to more than one business. And, even in cases where there could appear to be the possibility for the implementation of generic strategies, such as the turnaround strategy, the degree to which this generic strategy can be prescriptive is severely limited. Perhaps this is the beauty of corporate strategy, the fact that few can claim to be masters of this discipline, and those that can have the acumen to understand that strategies need to be modified according to the environment within which they are being implemented. Having said this, there can be no question that a number of individuals have pioneered strategy as a discipline. Michael Porter's attempts to prescribe frameworks within which strategic analysis can be undertaken have gone some way in providing strategic tools to assess organisational direction. However, even Porter's works, which have been internationally recognised and taught throughout the world, are not free of weaknesses. A number of pundits have gone to great lengths to pick holes in the theories as put forward by Porter including authors such as Hamel and Prahalad. Two of Porter's most recognised works, that of his Five Forces Model and the Value Chain, have not gone unchallenged. While acknowledging the points as raised by a variety of critics, perhaps the largest bone of contention is the fact that these models are only ideally suited to the manufacturing environment, one in which these models were originally designed to operate.

This again serves to highlight the complexity of the concepts surrounding the issue of corporate strategy, it is almost impossible to develop a framework that can co-ordinate and account for an ever changing number of variables, all impacting on the success of strategy development and implementation. It would not be unjustified then to define corporate strategy and indeed strategy in general, as an art form. Each chief executive officer (CEO), or any individual or body contributing to the process of strategy development, can be seen as the artist. The variety of strategic frameworks, the tools of the trade (paints, canvas and brushes). Even with exactly the same tools, the level of artwork produced can vary at infinitum. At the root of this variability lies the expertise of the artist, the degree to which they capture the essence of the environment within which they operate, the accuracy with which they are able to interpret events or emotions and capture these within their artwork. There can be no question that even with the same paints and canvas as Leonardo Da Vinci, it is incomprehensible to believe that I would be able to reproduce an art form as profound as the *Mona Lisa*. In the corporate environment the same can be said of the phenomenal success of Jack Welch and Bill Gates, to name just two. It is their vision, experience and knowledge of their environments that has allowed them to seize the opportunity to develop their companies into those at the forefront of today's global economy.

In summary then, if corporate strategy was a science a standard formula could be applied to produce identical results time and again. One only needs to operate at the helm of a large corporate to understand the complexities of corporate strategy and the constraints within which it must work in order to succeed. It is the contribution of these variations to the complexities of strategy that open the door for interpretation. Interpretation, by definition, requires an opinion and a decision, which lies at the heart of successful implementation. The degree to which a leader can harness these variations, account for their contributions towards strategy and incorporate them into a solution that drives the company towards a more profitable future, will determine its success.

## **2.2 WHAT IS CORPORATE STRATEGY?**

The task of defining the universal concept of corporate strategy is extremely difficult. As one examines the various definitions of corporate strategy, it becomes increasingly obvious that each author has their own understanding of what corporate strategy entails.

David (1995) describes strategy as the match an organisation makes between its internal resources and skills and the opportunities and risks created by its external factors.

Mintzberg (in Campbell, Stonehouse and Houston, 1999), in contrast to the suggestion put forward by David, suggested that nobody can claim to own the word strategy and that the term can legitimately be used in several ways. Mintzberg lists his 5 P's as a representation of the various states that strategy can take:

- A plan
- A ploy
- A pattern of behaviour
- A position in respect to others
- A perspective

While Mintzberg's 5 P's do not clarify a representative definition of what corporate strategy is, it does serve to highlight the complexity of the subject matter under consideration.

According to Lasher (1999) strategy has to do with deploying resources against an opponent. The word originally comes from the Greek *strategos* meaning a general, or a commander of troops, and tends to have a military flavour, as in arraying an army against an enemy...In business, strategy refers broadly to a marshalling of our economic resources to succeed in the competitive struggle.



Of importance in Lasher's definition of strategy is that a key concept to any strategic process involves action. Lasher refers to the "marshalling of troops and economic resources", a clear indication of two important steps in strategy, firstly the planning phase followed by successful implementation.

While a detailed definition is increasingly difficult to bed down, at a macro level several key concepts appear universal in their application when referring to corporate strategy. According to Lynch (2000) corporate strategy can be defined as:

"Corporate Strategy is the pattern of major objectives, purposes or goals and essential policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be."

What is of key importance in this definition is that strategy is more than a theoretical exercise. Without practical application, the arena of corporate strategy becomes merely academic, contributing little to the successful future of any organisation. In his definition, Lynch highlights the issue of developing essential policies and plans for achieving predetermined goals and objectives. Thus corporate strategy can be broken down into two major steps. Initially to define what the organisation is, where it operates, how it goes about its business and where it wants to be in the future. From this first step is the development of strategic goals and objectives.

For this first process to move beyond an academic exercise, these goals and objectives need to be broken down into action plans for implementation, the second major strategic step. It is perhaps within this arena that the strategy decision-maker faces his/her most difficult task. While one cannot deny the

importance of plotting the correct strategic direction, the ability to implement this new strategy is crucially important.

Having defined the strategic direction of the company, corporate decision-makers must now work within the constraints of organisational resources and environmental conditions to ensure that the company reaches the desired goals. Current literature provides numerous frameworks in this field of corporate strategy, that of implementation. While one cannot deny the importance of visionary leadership to re-invent an organisation, take it on a new path or to define strategies to defend corporate attacks from competitors, without a successful implementation strategy these plans contribute nothing to the success of the organisation.

## **2.3 THE ORIGINS OF CORPORATE STRATEGY**

Table 2.1 provides an overview of the development of corporate strategy in the twentieth century. The concept of corporate strategy known today took in the region of 100yrs to develop. While there can be no question that elements of strategy were present in early businesses to ensure their survival, e.g. defense against competitors, price setting etc, these businesses were too small to facilitate the development of formal corporate strategy as seen today.

However, significant levels of industrialisation in North America, Europe and Japan in the early twentieth century lead to the need for the development of more formal strategies to cope with the unique challenges as presented by increasing size and competition. Of importance during this period was the fact that strategy became a topic of interest for managers and industrialists rather than academics. This increased interest in the application and development of strategy by those managers actually implementing strategic ideas meant that the degree to which this academic framework was moulded into a useful set of management tools was accelerated.

As industrialisation continued to gain momentum, further fuelled by the First World War, managers were faced with an increasing number of strategic issues which needed to be addressed, issues such as economies of scale, greater competition and large markets for goods. After the World War and the challenges posed to managers to be able to exploit an abundance of opportunity and profitability came the Great Depression in the 1930s. The economic crises associated with the Great Depression meant that managers had to yet again adjust their strategic focus in order to survive in changing environmental conditions. Under these circumstances the strategic issues of cost cutting and management accounting became increasingly important to ensure that companies remained profitable.

According to Lynch (2000) the economic boom of North America in the 1940s fuelled the development of corporate strategy as we recognise it today. Economists began to explore the development of firms while behaviourists began to look at the human element to understand the impact that this had on profitability and growth. Through the 50s and 60s companies continued to show increasing interest in long range-planning and managing the roll-out of this process themselves (Lasher, 1999).

The 1960s saw the rise of consulting firms. These firms recognised a market opportunity in this interest and began to specialise in giving advice on planning. In the course of their work, a few of the leading consultants developed some unique methods of analysing and presenting competitive information (Lasher, 1999). This information was then used to assist in the strategic management process, further enhancing its effectiveness. As executives became familiar with frameworks and scenarios through which their companies circumstances could be processed, the strategic management process and the research based thereon gained momentum.

What one clearly sees as we move through history is that corporate strategy is inseparable from the environment within which business operates. The development of corporate strategy from inception has always been as a response to environmental influences impacting on the business. From the First World War to the Great Depression, each has presented business with a unique set of circumstances that have had to be overcome to survive.

Lynch (2000:51) lists 6 environmental factors in the 1980s and 1990s that are still impacting on corporate strategy today:

1. Increased global competition for many businesses
2. The consolidation and development of trading blocs
3. The development of telecommunications and computers
4. The collapse of Eastern European controlled economies
5. The rise of highly competitive and low-wage economies Far Eastern countries
6. Increased levels of training and knowledge of workers

It is clearly evident that strategy has developed as a response to changing environmental and market conditions. It is these changes that create a state of imbalance which an organisation must overcome in order to successfully operate within the confines of these new conditions. Table 2.1 provides an overview the development of corporate strategy in the twentieth century.

**Table 2.1 The development of Corporate Strategy in the 20th Century**

<i>Period</i>	<i>Environment</i>	<i>Strategy and Management Developments</i>
1900-1910	Colonial Wars Global trading of commodities	Beginnings of examination of the management task, e.g. FW Taylor and Henri Fayol
1910-1930	World war and its legacy	Rise of larger organisations and the consequent need for increased management control
1930s	Crash: trade barriers erected to protect some countries	Formal management control mechanisms developed, e.g. budgeting and management accounting, particularly in the USA Early human resource experiments in USA
1940s	World war and its legacy	Strong US industry and the birth of formal strategy Beginnings of organisational theory
1950s	Sustained economic growth coupled with first European trade and political bloc: European Economic Community	First real strategy writings in formal series of papers Organisational theory is applied to management tasks
1960s	Continued growth until first oil price rise late in the decade	Corporate strategy techniques are researched Separate parallel developments in organisational research
1970s	Growth becomes more cyclical with another oil price shock	Formal corporate strategy techniques adopted First research writings objecting to same techniques
1980s	Far East and global developments Computer data handling develops fast	Major strategic emphasis on competitive aspects of formal corporate strategy Search continues for new strategy concepts emphasising the human rather than the competitive aspects of the process
1990s	Telecommunications, global corporations, high growth in the Pacific Rim but currency problems in Japan Some Asian economies in crisis	Global concepts of strategy Greater emphasis on the organisation's own resources rather than competition as the basis for strategy development

*Source: Lynch, R (2000). Corporate Strategy. England: Pearson Education Limited. P 48*

## 2.4 STRATEGY DEVELOPMENT

Before delving into the frameworks, constraints and variables in the strategy development process, it is important to understand the need for corporate strategy. In its most basic form, it means that there is a desire within the organisation to move from one level to the next. Based on the works of a number of strategy authors (Mintzberg, 1994; Robertson, 2003; Porter, 1980; Lasher, 1999; David, 2003 etc), it has become evident that a number of factors create the need for the initiation of the strategy process. Particularly in a South African environment, a number of key elements can be highlighted:

- *Changing environmental factors:* A constantly changing environment creates a unique set of circumstances within which a firm must operate. In order for an organisation to survive, it must be able to effectively adapt to the challenges posed by this environment.
- *The impact of legislation and charters governing organisations:* Particularly in a South African context, legislation governing issues such as Black Economic Empowerment (BEE) carry significant strategic consequences.
- *Threat from competitors:* As in Porter's 5 forces model (1980), the threat from competitors is rapidly increasing in South Africa. Since the abolition of Apartheid in the early 1990's, South African markets have become increasingly attractive and open to foreign competitors.
- *Changing consumer needs:* Demand is driven by the consumer. As these needs change an organisation must ensure that it positions itself correctly in order to meet the changing needs of its customers.
- *Resource constraints:* Issues such as lower labour prices in Middle Eastern countries as well as the instability of the Rand place South African firms under constant pressure. In addition to this, lower margins driven down by an influx of competition means that decision makers need to be increasingly creative in their strategic approaches to growing their businesses.

- *Poor financial results:* As in any businesses, poor financial performance often results in either a change in senior management or a change in the direction of the firm.
- *Changing shareholder perceptions:* What is seen as the correct course of action during one period can appear outdated or incorrect in the next. Ultimately, the board of directors is accountable to a company's shareholders, and meeting their needs can often require a series of strategic shifts.

While this list is hardly exhaustive, it serves to highlight the diverse nature of the triggers surrounding the initiation of the strategic process. Of importance here is that each of these 'triggers' could entail differing goals and objectives, each which would then place pressure on a unique set of resources within the organisation. The process becomes all the more complicated as each of these 'triggers' seldom occurs in isolation. The strategy decision-maker now has to juggle a number of differing objectives, each placing pressure on a complex assortment of resources, to ultimately ensure the success of the organisation.

How then does a leader determine which strategic framework to follow? Before even attempting to apply a strategic framework to a company or situation, the strategy developer needs to have the strategy development process clearly defined in his or her own mind. What has become evident is that there are two distinctly different approaches to the issue of strategy development, coined the prescriptive and emergent approaches to corporate strategy development.

## **2.5 THE PRESCRIPTIVE APPROACH TO CORPORATE STRATEGY**

The prescriptive approach to corporate strategy can be defined as a sequential process, beginning with a clearly defined objective and ultimately resulting in a series of steps being implemented by management to ensure the fulfilment of such objectives. This prescriptive approach to strategic decision making formed the basis upon which current strategy models were based. Authors such as Chandler (1962) and later Porter (1980) defined and prescribed prescriptive strategy process.

Chandler in Robertson (2003) defines strategy as:

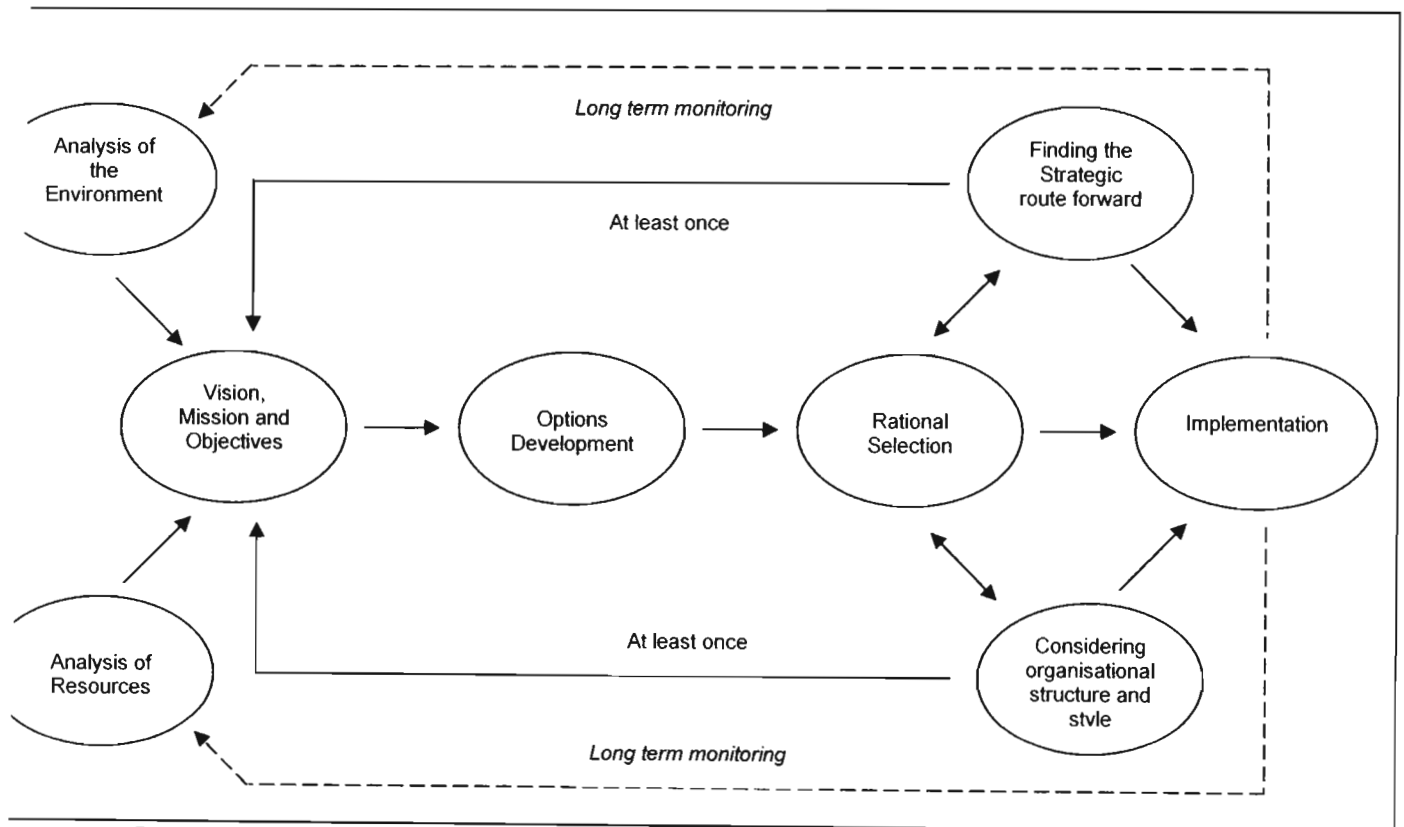
*the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.*

This approach to strategy development is highly structured in nature. As a starting point, long-term objectives of the organisation are clearly defined. These objectives can range from issues such as profit maximisation (the traditional capitalist approach) to feeding the poor and raising sponsorships (Not for Profit organisations - NPOs). The key is to ensure that the organisation is aligned with where it intends to go. As with all forms of strategy development, the senior management team of the organisation would undertake this process. Once these objectives have been defined, they would be analysed in the context of the current operating environment. Projections of future environmental and political conditions would also be made to ensure that the objectives as defined by the organisation fit within the context of current and future market conditions (Lynch 2000). At this stage, where there appears to be a potential mismatch between the objectives as initially defined and predicted market conditions, a feedback loop is incorporated to allow for the revision of initial objectives.



Once these objectives have been revised and agreed upon, a variety of options are generated to enable the business to achieve its desired objectives. Again, each of these options is reviewed by the management team ultimately resulting in the selection of the option which best suits the organisational context of the company while still enabling the attainment of the objectives as previously defined. This option forms the basis of the plan for implementation of the strategy within the organisation. Figure 2.1 provides an illustration of the prescriptive approach to strategy development.

**Figure 2.1 The Prescriptive Strategic Process**



Source: Lynch, R (2000). *Corporate Strategy*. England: Pearson Education Limited. P 27

From Figure 2.1 it is evident that the prescriptive approach to strategy development provides a comprehensive framework within which a corporate strategy can be formulated. It is important to note that in order to effectively

adopt this process of strategy development, a detailed understanding of an entire organisation and the challenges that it faces is needed. One of the strengths of this model is that it allows measurement and comparison to take place. Managers often fall into the common trap of not being able to effectively measure and monitor the progress of strategic choices. With the prescriptive approach to strategy, a variety of options are generated which allow for comparison. Under the prescriptive approach, the management team has the ability to work these various scenarios through a number of tools in order to assess their practicality. Using each option generated it is possible to be able to consider cash flow implications, resource constraints, organisational knowledge and ultimately to be able to pick the option which best fits the position of the organisation. Without a structured and planned approach to this decision making process, it would be too easy to follow a route which appears correct at first glance but does not fit the current profile of the organisation.

The prescriptive approach to strategy development, while comprehensive in its coverage of strategically important issues facing an organisation, has a number of drawbacks that need to be considered. A number of critics have questioned the validity of the prescriptive approach to strategy development, the most notable being Mintzberg. Mintzberg (1990) has highlighted a number of potentially problematic assumptions fundamental to the prescriptive approach, detailed below:

- *The future can be predicted accurately enough to make rational discussion and choice realistic.* As soon as a competitor or a government does something unexpected, however, the whole process may be invalidated.
- *It is possible and better to forgo the short-term benefit in order to obtain long-term good.* This may be incorrect: it may not be possible to determine the long-term good and, even if it were, those involved may not be willing to make the sacrifice, such as jobs or investment.

- *The strategies proposed are, in practice, logical and capable of being managed in the way proposed.* Given the political realities of many companies, there may be many difficulties in practice.
- *The chief executive has the knowledge and power to choose between options. He/ She does not need to persuade anyone, nor compromise on his/her decisions.* This may be extraordinarily naïve in many organisations where the culture and leadership seek discussion as a matter of normal practice.
- *After careful analysis, strategic decisions can be clearly specified, summarised and presented; they do not require further development, nor do they need to be altered because circumstance outside the company have changed.* This point may have some validity but is not always valid.
- *Implementing is a separate and distinctive phase that only comes after a strategy as been agreed: for example, a strategy to close a factory merely requires a management decision and then it just happens.* This is extraordinarily simplistic in many complex strategic decisions.

The objections to the prescriptive approach to corporate strategy as raised by Mintzberg and others have not gone unnoticed. What is particularly important in today's modern corporate arena is the fact that strategic decisions cannot be made in an environment where all variables are held constant.

*When well-managed major organisations make significant changes in strategy, the approaches they use frequently bear little resemblance to the rational, analytical systems so often described in the planning literature (Quinn in Robertson, 2003).*

A company that may have been seen as a major competitor two years ago might since have folded. Government legislation originally governing a particular sector may have been amended with a change in the ruling party. These are just some of the issues which fluctuate over time and all have an impact on the validity of

strategic decisions. With the foundations of strategic decisions shifting, how valid are the decisions made based on those foundations? These kinds of issues have triggered a shift from the original focus on the prescriptive approach to strategic decision making in the 1970s to what has been coined the emergent approach to corporate strategy in recent times.

## **2.6 THE EMERGENT APPROACH TO CORPORATE STRATEGY**

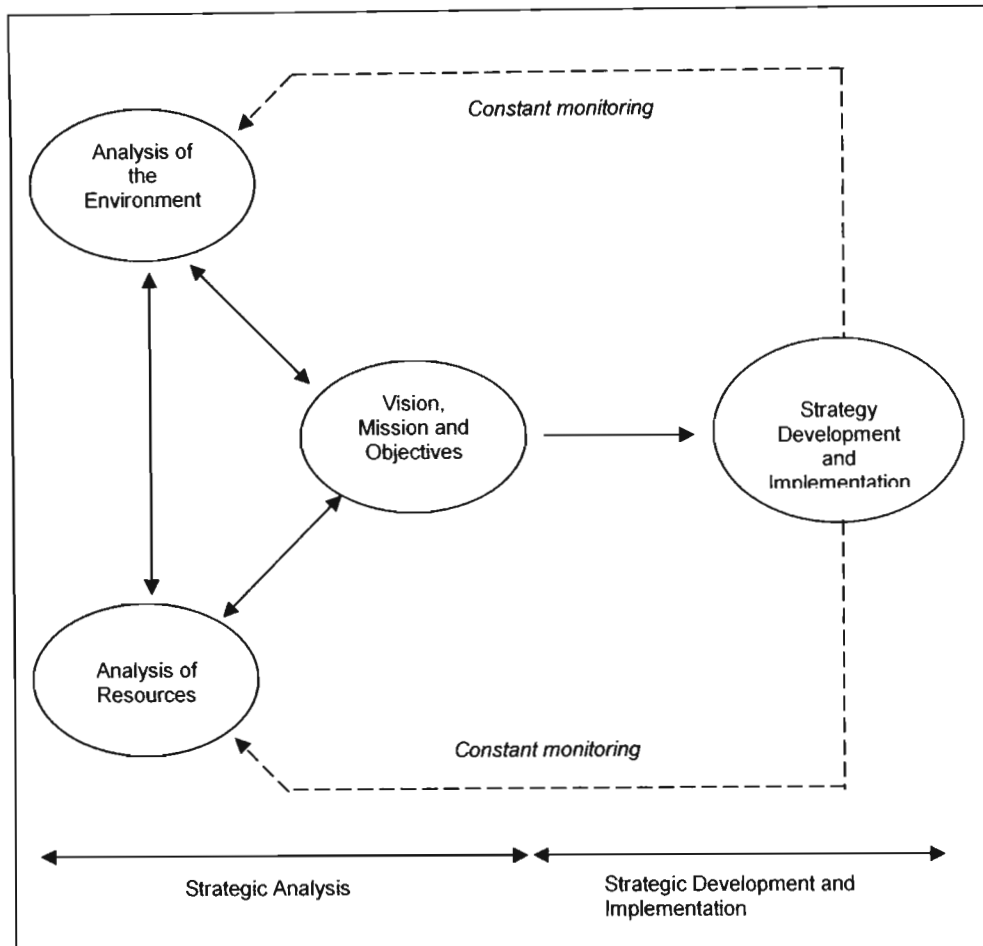
The emergent approach to corporate strategy is a far less structured approach to the corporate strategy development process. Primarily, the emergent approach attempts to not only overcome the limitations of the prescriptive approach to strategy development, but also to be a true reflection of reality – the decision making process as it is found within organisations today.

The prescriptive approach, while comprehensive in its coverage of options development and assessment, has been criticised as being an academic exercise, one based on theory with assumptions so easily undermined that the framework is difficult to apply in the corporate environment. The emergent approach overcomes these significant drawbacks by primarily incorporating two additional factors; namely a constantly changing environment and the human element. The most critical of these two issues is the implication that the human element has on corporate strategy. Huff (in Robertson, 2003) confirms that Managers have different schemata, and will also have different causal maps or mental models that will influence their individual decision making and therefore the ensuing strategy of the firm. Although it is easy to understand a changing environment and the impact that it may have on strategy development, the influence of human behaviour is far more difficult to analyse. In an ideal situation the decision making process would be undertaken by one set body within the organisation, a body with not only the relevant expertise but also the power to make unilateral decisions throughout the organisation. In reality, this is seldom the case.

Not only do boards of executives require the input of various role players throughout the organisation, but also seldom have the option to pursue a profit maximising strategy regardless of the impact this decision would have on the organisation. Not only are large-scale corporate decisions influenced by public opinion and government regulation, but also by internal politics, trade unions and company culture to name a few (Lynch, 2000). Under these circumstances one often finds decisions influenced by a number of these factors, often resulting in the adoption of a strategy which will not necessarily provide the optimal financial results.

In the emergent approach, the approach to strategy development is somewhat haphazard. Strategies often emerge in a disorganised way. Options selected are often as a result of a number of compromises taken to come up with a solution that is workable in the current organisational and external environment. Downs et al (2003) defines the emergent approach to strategy as being characterised by trial, experimentation, and discussion; that is, by a series of experimental approaches rather than a final objective. The options developed are seldom comprehensive in nature ultimately leading to a 'trial and error' approach to strategic implementation. As a result of this, it is not uncommon for a certain strategic direction to be developed and followed, only to be altered and redirected at a later stage. In its simplest form, this approach to strategic development can be problematic with an emphasis on quick implementation rather than planning and careful analysis of resource allocations before implementation. Figure 2.2 illustrates a generic format of the emergent approach to strategy development.

**Figure 2.2 The Emergent Strategic Process**



*Source: Lynch, R (2000). Corporate Strategy. England: Pearson Education Limited. P 27*

At first glance it would appear as if the emergent approach is the answer to the potential weaknesses raised in the prescriptive approach. Downs, Durant and Carr (2003) confirm this potential:

*Emergent Strategy, with its acknowledgement that uncertainty is here to stay, has the potential to address the current challenges of organisations.*

However, Lynch (2000) highlights a number of valid concerns surrounding the emergent strategic approach. The key elements of concern raised include the following:

- *It is unrealistic to expect that a large corporate will be allowed to operate on purely a trial and error basis without some kind of formal planning and resource allocation*
- *A central strategic view needs to be developed in order to successfully allocate resources between competing groups*
- *While political groups have an influence on corporate decision making, it would be abdicating responsibility for the final decision if this process was to be raised to the level of corporate strategy*
- *In industries with long time frames, it is imperative that decisions are made and adhered to or the organisation would lose direction – e.g. construction industry*
- *Management control would be simpler and clearer where the basis of actions to be undertaken have been planned for in advance*

Again, Lynch provides us with valuable insight into the weaknesses associated with the emergent approach to strategy development. This then begs the question, “Which approach should be followed?” While it is not the intention of this literature review to comprehensively resolve this, it is the author’s opinion that one needs to assess the current condition of the organisation undertaking the strategy development process, as well as the environment within which it operates. Ideally, one would attempt to combine the strengths of each approach ultimately leading to a decision making process that allows for some flexibility while still being comprehensive enough to allow for the analysis and commitment of resources to a chosen strategic option.

An assessment of the history of corporate strategy development, as well as the two primary schools of thought regarding the approach to corporate strategy development, has assisted in the development of the framework within which the

case study will be assessed. After having pursued either the emergent or prescriptive approach to strategy development, or perhaps a combination of the two, strategic decision-makers arrive with a number of strategic options to pursue. Of crucial importance at this stage is the selection of a strategic option that not only fits the resources and expertise of the organisation, but also maximises the long-term goals of the organisation. The remainder of this literature review will focus on the analysis of the acceptability, suitability and feasibility of strategic options as developed by Johnson & Scholes (1998), ultimately developing a framework which can be applied to the assessment of the strategic decision-making process.

## **2.7 ASSESSING SUITABILITY, ACCEPTABILITY AND FEASIBILITY OF STRATEGIC OPTIONS**

It is important to remain conscious of the academic nature of strategic analysis. In many disciplines, not specifically corporate strategy in isolation, often what is taught in classrooms and lecture theatres has little if any application in real world corporate scenarios. Even in cases where application can be found, the simplified format of scenarios posed in classrooms often do not equip the graduate with the skills to effectively operate within the business environment. Overcoming this hurdle is just one of the steps to be taken in terms of successful adjustment into the corporate world.

It is because of this that techniques surrounding the evaluation and selection of strategic options are of crucial importance. It is at this stage that a good idea is stretched and reworked to fit within the reality of the situation an organisation faces on a day to day basis. It is easy to develop complex strategic ideas, free of resource and budgetary constraints. It is only when these ideas are critically assessed based on organisational and environmental constraints that strategy becomes practical. For any strategic initiative to be successful, one needs to not only select the best-suited strategy but also to ensure that a detailed and well-executed plan for implementation is adopted. Selection and implementation are



complementary concepts in corporate strategy, it is impossible to achieve success without achieving both of these objectives.

Johnson & Scholes (2003) and Stacey (2003) have developed a series of guidelines to consider when approaching each of the three key elements to strategy evaluation and selection, that of suitability, acceptability and feasibility.

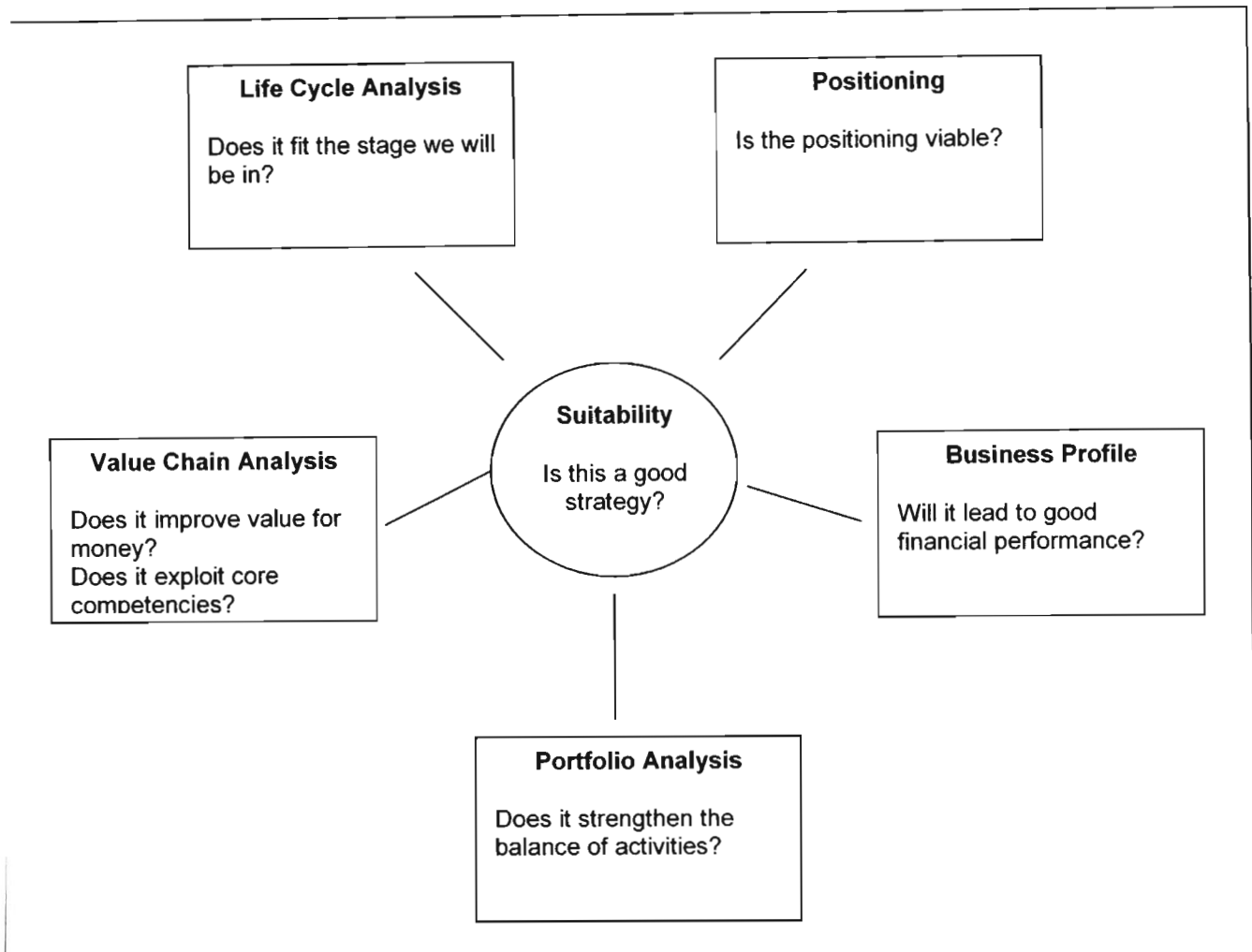
### **2.7.1 A Suitability Assessment**

The assessment of suitability attempts to examine the strategic options previously generated through the course of strategic analysis. It does this by addressing the circumstances within which the organisation is currently operating. The assessment of suitability is based on two primary criteria, what is the rationale behind the decision and then screening each of these options based on a number of frameworks e.g. ranking, decision trees, scenario planning etc.

Stacey (1993) puts forward a comprehensive definition of suitability or fit. In his definition Stacey refers to strategic logic as a key element of the assessment of suitability. Strategic logic means that a proposed sequence of actions is consistently related to the objectives of the organisation on one hand and matches the organisations capability (including its structure, control systems and culture) in relation to its environment on the other. He goes on to compare the various facets of a strategic problem to puzzle pieces. In order for these pieces to fit together correctly they must be congruent i.e. pieces from the correct puzzle. What is interesting in Stacy's approach is his interpretation of suitability as being the final stage of the assessment of strategy. This author would differing on this point and accepts that while suitability provides a valuable contribution at the end of a strategic assessment, it's benefits are far more powerful as a screening option at the beginning of a strategic process.

Johnson & Scholes (2003) puts forward a brief framework that serves as a quick reference to help guide the process of suitability assessment, refer Figure 2.3.

**Figure 2.3 Testing Suitability**



Johnson G, Scholes K. 1998. *Exploring Corporate Strategy*. Prentice Hall.

In terms of the assessment of the suitability of a strategic option, it is often beneficial to ask the primary driver behind the idea to elaborate on why the strategic option is beneficial to the organisation and justify the underlying assumptions upon which the strategy has been developed. It is important at this stage that assessors (these could be members of the board of executives or other strategic decision making bodies) have a mutually understood and agreed upon set of standards against which the strategic option will be benchmarked. At its most basic level, this could encompass areas such as the ability of the strategy to exploit opportunities and avoid threats, the degree to which it

capitalises on the competencies of the organisation and the degree of fit between the strategy put forward and the cultural situation of the organisation.

One of the key aspects of the Johnson & Scholes (2003) framework for the assessment of suitability is that it is comprehensive in its coverage of a number of aspects within an organisation against which a strategic option must be assessed. Figure 2.3 illustrates that there are 5 internal determinants against which the strategy fit is measured. For the sake of this analysis, the issues of life cycle, positioning and the value chain will be discussed when considering the issue of suitability.

#### 2.7.1.1 Life cycle analysis

A life cycle analysis attempts to determine whether the proposed strategy is aligned with the current life cycle of a particular product (which might be affected by the strategic analysis) or the company as a whole (Johnson & Scholes, 1998). A life cycle analysis is important because a variety of constraints/conditions are inherent at each stage of the life cycle. This in turn affects the way in which a strategy can be implemented and ultimately its appropriateness to the organisation as it currently stands. A number of portfolio matrices exist which can be used to help determine the current stage of the organisation. The Boston Consulting Group matrix is one often used to determine the product life cycle stage, e.g. cash cows, dogs etc. From an organisational perspective, a number of other matrices exist, with Arthur D. Little providing comprehensive coverage of a variety of organisational levels of development, detailed in Figure 2.4.

**Figure 2.4 Arthur D Little's positioning matrix**

	EMBRYONIC	GROWTH	MATURE	AGEING
DOMINANT	FAST GROW START-UP	FAST GROW ATTAIN COST LEADERSHIP RENEW DEFEND POSITION	DEFEND POSITION ATTAIN COST LEADERSHIP RENEW FAST GROW	DEFEND POSITION FOCUS RENEW GROWTH IN INDUSTRY
STRONG	START-UP DIFFERENTIATE FAST GROW	FAST GROW CATCH UP ATTAIN COST LEADERSHIP DIFFERENTIATE	ATTAIN COST LEADERSHIP RENEW FOCUS DIFFERENTIATE GROWTH IN INDUSTRY	FIND NICHE HOLD NICHE HANG-IN GROW WITH INDUSTRY HARVEST
FAVOURABLE	START-UP DIFFERENTIATE FOCUS FAST GROW	DIFFERENTIATE FOCUS CATCH-UP GROW WITH INDUSTRY	HARVEST, CATCH-UP, FIND NICHE, HOLD NICHE RENEW, TURNAROUND DIFFERENTIATE, FOCUS GROW WITH INDUSTRY	RETRENCH TURNAROUND
TENABLE	START-UP GROW WITH INDUSTRY FOCUS	HARVEST, CATCH-UP, HOLD NICHE, HANG-IN, FIND NICHE, TURNAROUND, FOCUS, GROW WITH INDUSTRY	HARVEST TURNAROUND FIND NICHE RETRENCH	DIVERT RETRENCH
WEAK	FIND NICHE CATCH-UP GROW WITH INDUSTRY	TURNAROUND RETRENCH	WITHDRAW DIVEST	WITHDRAW

Johnson G, Scholes K. 1998. *Exploring Corporate Strategy*. Prentice Hall.

Little examines two factors when considering the organisational life cycle, that of stages of industry maturity on one axis and company competitive position on the other. From an organisation's perspective, the ability to be able to effectively determine their position on a portfolio matrix is extremely important. As with the product life cycle, organisations are constrained by internal conditions associated with stages of development. A strategy that is capital intensive, requiring high levels of investment, might not be possible for an organisation that is in a weak competitive position in a declining market. In all likelihood this organisation would not have sufficient cash to be able to invest in such a strategy.

#### 2.7.1.2 Positioning

Positioning is an important aspect to consider when dealing with strategic choices. Positioning refers to how and where a company operates within an existing market. It might be positioned as a low cost operator, offering the lowest price at the minimum level of quality or it might be at the other end of the market, offering premium service at a premium price. The important factor here is to determine where the company operates and how it operates and ultimately whether the strategic option put forward enhances this position. While it is important to consider whether the new strategy enhances current strengths and market position, it is important to have an idea of the sustainability of the company's current position in the long term. There is little sense in investing resources in a strategy that supports the company's current position, although it is apparent that this position is tenable in the future. Underpinning any market position are the core competencies of an organisation. The degree to which these competencies are enhanced to strengthen the organisation's position is an important factor to consider. Arthur D Little provides a comprehensive framework for assessing market positioning, Figure 2.4.

#### 2.7.1.3 Value Chain Analysis

Porter (1980) has put forward a framework against which the nature of competitive advantage in a market and the power of a particular company in that market can be analysed. These analytical techniques identify key aspects determining the relative market power of an organisation and its ability to sustain excess profits (Stacey, 1993).

Fundamental to this process is the relationships and linkages between various core competencies of an organisation. Campbell et al (1999) describe core competencies as an attribute, or collection of attributes, specific to a particular

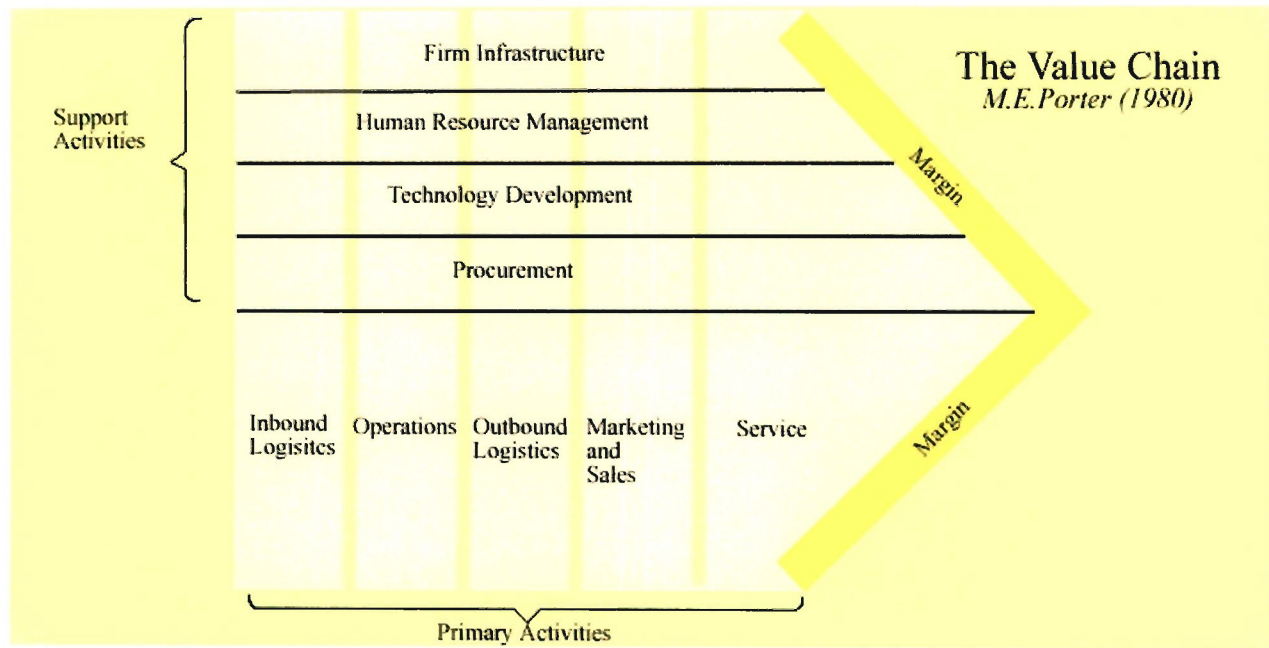
organisation which enables it to produce above industry average performance. Core competencies are key to value creation in a business and form the foundations upon which unique value within an organisation is created.

The aim of the Value Chain analysis developed by Porter and represented in Figure 2.5 is to determine where value is created and destroyed in the value chain. Shank et al (1992) describe the value chain as the linked set of value creating activities all the way from basic raw materials sources through to the ultimate end-user product delivered into the final consumer's hands. Important to this concept is to have an external view of the firm, seeing it in the context of the greater value chain to which it contributes.

Often by reworking the position of certain functions, altering focus in certain areas or removing non-essential parts of a business can add significant value to the profitability of a company. A comprehensive value chain analysis is an intensive process that requires the thorough knowledge of all areas of a business. In order for this process to take place effectively, it is often necessary to bring together the significant role players in each chain to ensure comprehensive coverage of all areas is achieved. The concept of synergy is at the very essence of a value chain analysis, how can we influence the value chain to ensure that any increases in profitability outweigh the corresponding capital investment that might be required to boost production?

Where this adds value in a strategic analysis is to carefully examine the implications of the strategy implementation as it applies to linkages and resources within the company's value chain. Ultimately, a new strategy should look to enhance organisational strengths and reduce weaknesses where possible. Applying the strategy concept to core competencies and the value chain can help uncover whether an implementation strengthens or weakens a company's position. Refer to Figure 2.5 for an illustration of Porter's value chain analysis as it applies to the manufacturing sector.

**Figure 2.5 Porters Value Chain Analysis**



### **2.7.2 An Acceptability Assessment**

Having filtered a variety of strategic options during a suitability assessment, the next step entails a more detailed investigation into the performance of the remaining strategic choices, were they to be implemented. Specifically, the testing of acceptability as prescribed by Johnson & Scholes (1998) covers three key areas namely risk, return and stakeholder reactions.

In addition to this, Stacey (1993) goes on to expand three further measures against which acceptability can be measured, namely acceptable financial performance, acceptable consequences for internal power groups and acceptable consequences for external power groups. What is important in Stacey's understanding of acceptability is that it highlights the influence of factors other than purely objective ones. In many instances, the correct strategic route to follow is not necessarily the route which appears to make the most sense from a purely objective point of view. As in many other scenarios, the human element can have a significant effect on the outcome of any given situation.

Testing acceptability deals with performance outcomes of strategic options. Having an understanding of the strategic complexities of an option and the subsequent utilisation rates etc on company resources, acceptability attempts to map these costs and returns to determine whether the option places the company in a stronger financial position. A number of techniques are available within the market to assess risk and return, with just a few highlighted by *Johnson & Scholes*. It is important to note any form of detailed projections relating to financial analysis would typically be carried out by specialised individuals within this field. The strategic decision-maker would ideally be presented with the results of such an analysis with a view to incorporating these numbers into their final decisions. With this in mind, it is important to note that the financial analyses selected would depend on not only the data available for calculation but also the circumstances and environment within which the targeted



firm was operating. Figure 2.6 provides a snapshot of some techniques available as well as their limitations.

Figure 2.6 highlights 3 major areas for consideration when assessing acceptability namely analysing risk, analysing return and assessing stakeholder reactions. Under each of these categories a number of techniques used for assessment are detailed as well as a brief explanation of their strengths and weaknesses. When assessing return, the simplest of these techniques to implement is the profitability analysis. While Shareholder Value Analysis and Cost Benefit Analysis are powerful techniques to use, both are open to subjectivity with results largely dependent on interpretation. Profitability analysis is possibly the most objective of these techniques, providing a clear indication of the expected return of each potential option, its only real drawback being the fact that each option can only be assessed in isolation.

Figure 2.6 goes on to illustrate three risk assessment tools, each of which attempts to provide frameworks within which strategic options can be analysed to determine the relative degree of risk before implementation. These risk analysis tools are subject to very similar constraints to those faced by the profitability analyses, namely subjectivity of certain data sets as well as the analysis of each strategic option in isolation, seldom the case during an implementation within the workplace.

Finally, the assessment of stakeholder reaction is largely a qualitative exercise. It becomes increasingly difficult to rationally predict human behaviour, particularly when dealing with political manoeuvring within the corporate arena.

**Figure 2.6 Assessing the Acceptability of Strategies**

<b>APPROACH</b>	<b>USED TO ASSESS</b>	<b>EXAMPLES</b>	<b>LIMITATIONS</b>
<b>Analysing Return</b>			
Profitability Analyses	Financial return on investment	Return on capital, payback period, discounted cash flows	Apply to discrete projects Only tangible costs / benefits
Cost-benefit Analyses	Wider costs / benefits (including intangibles)	Major infrastructure projects	Difficulties in quantification
Shareholder Value Analysis	Impact of new strategies on shareholder value	Mergers / takeovers	Technical detail often difficult
<b>Analysing Risk</b>			
Financial Ratio Projections	Robustness of strategies	Break-even analysis Impact on gearing and liquidity	
Sensitivity Analysis	Test assumptions / robustness	"What if?" analysis	Tests factors separately
Simulation Modelling	Aggregate impact on many factors	Comprehensive models Risk analysis	Quality of data on causal relationships
<b>Stakeholders Reactions</b>	Political dimension of strategy	Stakeholder mapping Game theory	Largely qualitative

Johnson G, Scholes K. 1998. *Exploring Corporate Strategy*. Prentice Hall.

### 2.7.2.1 Analysing Return

When analysing return, it is important to look at both profitability analyses and cost benefit analyses. Cost benefit analysis in particular is important in weighing up decisions based on profitability ratios and calculations, often contributing significant value to the decision making process through incorporating further costs usually excluded from pure profit calculations.

#### **Profitability Analyses**

The calculation of profitability analysis including techniques such as discounted cash flow analysis, return on investment etc are all used in an attempt to quantify the investment decision. Investment decisions, using discounted cash flow techniques such as net present value and rate of return, are based on underlying projections of revenues, costs, interest rates, product mix and other variables Randhawa & Douglas (1993).

While a number of calculations are available to assist in calculating return on investment, Johnson & Scholes (1998) have chosen to briefly overview three techniques, Return on Capital Employed (ROCE), Payback Period and Discounted Cash flow Analysis (DCF). Without detailing each technique in its entirety, it is important to understand the output of each of these techniques. Ultimately, the goal is to try to ascertain the return on investment of each strategic option, the corporate environment exists because of the capital nature of the modern manager. Each company strives to drive profitability, either to be able to fund further expansion or to build wealth. In line with this thinking the strategic decision-maker needs to quantify the impact of strategic options on the profitability of the company.

Return on Capital Employed (ROCE) attempts to achieve this by calculating a predicted return achievable after a certain period of time. E.g. we expect this

investment to return 10% per year after 2 years. In this way it helps the decision-maker to understand when the firm will begin to benefit from the investment, and also to decide whether this period is sufficiently short enough to be a sustainable option.

The Payback Period operates along similar lines. Using this technique a financial analyst is able to predict how long a project / investment will take before recovering the money invested to initiate it. Again, there are a number of factors to consider when analysing the payback period. Issues such as liquidity, interest cover and the cash flow cycle are all extremely important factors. Particularly in capital investment, cash is tied up for extended periods of time so the company has to be certain that it can continue to operate in the absence of this cash for a calculated period of time.

Perhaps one of the most widely used investment appraisal techniques is the Discounted Cash Flow Technique (DCF). Miles and Estey (1979) describe the DCF as a key financial tool used by investment consultants, primarily because of the increased flexibility it allows in the estimation of operating income, calculation of the benefits of leverage, isolation of income tax effects, and the handling of the disposition presumption.

This technique attempts to incorporate the time value of money. The basis of this technique is to compare investments on a level playing field, taking into account cash flows at different times during a project. The ultimate goal of DCF is to calculate the Net Present Value (NPV) of an investment at the present time. Any investment decision with a NPV of greater than zero is a potential candidate for investment. This technique then allows for the comparison of multiple investments by discounting each to the NPV, ultimately enabling a comparison to take place on level playing fields. Again, as with most techniques, there are a number of drawbacks associated with the implementation of NPV analysis. Perhaps one of its key shortcomings, particularly from a strategic impact, is that it

is designed to examine investment decisions in isolation. No allocation is made to be able to assess the impact of a shift in resources to focus on a new investment while other aspects of the business fall behind. The implication of this is then to consider factors over and above the figure obtained from NPV analysis when considering investment, it is not always the case that the investment with the greatest NPV is the correct route to follow.

It is important to note that the limitations as detailed above do not only apply to DCF analysis but are common to most forms of financial analysis. Johnson and Scholes (1998) highlight two further critical assumptions that undermine the application of profitability analysis in strategic decision-making:

1. These methods were developed to compare projects in isolation, often not a true reflection of the strategic decision-making process.
2. Profitability analysis focuses on merely the direct tangible costs or benefits associated with a decision, excluding the benefit an investment might have in other areas such as brand awareness or loyalty.

Having said this, it is important to review the results of financial calculations in the context of the greater organisational benefits, as well as using a number of different techniques to ensure the validity of results obtained.

Gordon and Mai (1988) summarise the early reluctance to the wide-spread use of the DCF technique. Even though market value is thought to be the present value of future benefits, there was a natural reluctance to attempt to 'predict' the future. However, most appraisers have now come to realise that all value estimates are economic forecasts that attempt to simulate the thinking of knowledgeable market participants.

While ordinarily one would examine a number of financial techniques, for the purposes of this project the DCF approach will be used to assess acceptability. The strength of NPV is that it is able to compress timelines and cash flows into a figure that is useable and easily compared to other forms of investment.

## **Cost Benefit Analysis**

Rowe, Mason, Dickel and Snyder (in Stacey 1993) describe cost benefit analysis as the method which attempts to place money values on all the costs and benefits of a strategic action option. Looking purely at profitability ratios and other financial calculations can sometimes lead to poor decision making, primarily because of the limitation on the application of the techniques. Often projects / investments cannot operate in isolation from the remaining organisation. While the numbers appear to make sense at the outset, the reality of the implementation and resource allocation associated with a strategic initiative could render the choices ineffectual.

This is where cost benefit analysis attempts to provide a more wholistic approach to the acceptability of a variety of strategic options. Cost benefit analysis attempts to place a money value on all costs and benefits associated with a strategic option. It also places value on both tangible and intangible benefits which are costed and compared. Cost benefit analysis incorporates the benefits and costs of the implementation on all affected parties, not only those associated with the company involved in the decision making process. This can be extremely valuable when considering options affecting larger populations outside of the organisation e.g. the environmental impact of opening a new mine in an ecologically protected area. When assessing these kinds of costs and benefits, the strategist is compelled to make a number of judgement calls which often lead to differing interpretations

Stacey goes on to describe cost benefit analysis as involving many subjective judgements upon which there is likely to be disagreement that cannot be

resolved by rational argument. In the end the decision has to be made by political processes of persuasion and conversion, or even force.

#### 2.7.2.2 Analysing Risk

Risk can be defined in a number of ways depending on the context within which it is read. However, at the root of all these definitions is the fundamental concept of uncertainty. From a financial perspective, risk revolves around whether the expected benefits of an investment are actually realisable during implementation. How successful will the organisation be in generating the projected return of 15%? If the company does not achieve the required rate of return, what are the implications of this? Will the company suffer a loss, does it have a contingency plan to cope with a failed particular course of action?

Mintzberg (in Baird and Thomas, 1985) highlights the importance of risk in strategic decision making. In many instances the ability of a strategist to incorporate risk and the associated impact of failure into their long-term strategic plans largely determines their success. Strategists ignore the impact of risk at their peril (Baird and Thomas, 1985).

Again, the concept of risk or uncertainty is crucially important when considering strategic decisions. Risks (or uncertainty) exist when problem structure, consequences and probabilities are not fully known (Mason and Mitroff, 1981). There are a number of tools available to assess the degree of risk from both a quantitative and qualitative perspective. In some instances it is really a case of common sense as well. If a major strategic decision is made based on a presumption that is unproven or untested, it is obvious that the decision is inherently risky. A strategic decision maker needs to consider three aspects with regards to risk:

- How great is the risk, is it fundamental to the decision making process?

- Do the positive aspects of a huge return outweigh the negative consequences of the risk taken?
- What are the consequences if the initiative fails?

These are all key factors to consider before moving forward with a strategic decision. While a detailed analysis of financial ratio projection tools is beyond the scope of this literature review, it is important to note their existence. A detailed understanding of the application of these tools is crucial to their successful analysis. As is the case with many financial projections, it is recommended that experienced professionals in this field be brought on board to undertake this aspect of the strategic analysis. The key for the strategic decision maker is to incorporate these figures into their overall assessment of the correct route to follow. For the purposes of this analysis of MHM, the simplest of risk analysis tools will be used to analyse risk in the decision making process. This framework is the 'what if' analysis model.

#### 2.7.2.2 What if Analysis

What if analysis is also known as sensitivity analysis. While this tool takes on a number of forms in implementation in the workplace, the fundamental concept remains the same. The intention is to take a predicted set of outcomes / circumstances and rework them in a variety of combinations under differing circumstances to try to predict a variety of outcomes should conditions change during the implementation of projects (Johnson & Scholes, 1998).

The ideal situation is to be able to initiate a plan that is robust enough to be effective under almost any circumstances. While this is the optimal situation, the what if analysis often helps to filter out those choices which are successful only under limited circumstances. These kinds of projects are particularly susceptible to failure, especially where an organisation operates in an environment with a high degree of variability. From an MHM perspective, a basic model will be



developed that allows for the alteration of a number of variables affecting in particular pricing and resource allocations during the implementation of the attendance management program.

### **2.7.3 Analysing Feasibility**

Having looked at the suitability and acceptability of a variety of strategic options, the next step is to determine the feasibility of the decision. Feasibility determines whether the company has the resources and competencies to implement the strategy which they have chosen. It is one thing to analyse strategies, screen them and run them through a series of profitability and risk ratios to determine their fit, it is another to then implement this. Stacey, although simplified, defines feasibility to be the absence of insurmountable obstacles to implementing the chosen strategy. Although simple, this definition is effective in emphasising the fact that a feasibility assessment is an internal check of the organisation to ensure that it has the resources and competences to implement any given strategy.

Rumelt (1999) poses three questions which should be asked of an organisation when attempting to assess the feasibility of implementation a new strategy:

1. Has the organisation demonstrated that it possess the problem-solving abilities and/or special competences required by the strategy?
2. Has the organisation demonstrated the degree of coordinative and integrative skills necessary to carry out the strategy?
3. Does the strategy challenge and motivate key personnel and is it acceptable to those who must lend their support?

One of the strengths of the feasibility analysis is to provide the final checkpoint to measure the fit of a strategic decision. At this stage it becomes clearly evident as to whether the company has the resources to implement their chosen strategy. However, as with any future oriented technique, there are a number of shortcomings that need to be considered. Perhaps the most important of these is

considering the need for strategy and resource fit. While the ideal situation would be the choice of the most effective strategy supported by all the required competencies already in place within the organisation, this is often not the case. Decisions need to be made as to whether the optimal strategy requires that new competencies be built up within the organisation during implementation, or whether an alternate strategy needs to be considered that is more closely aligned to competencies currently found within the organisation.

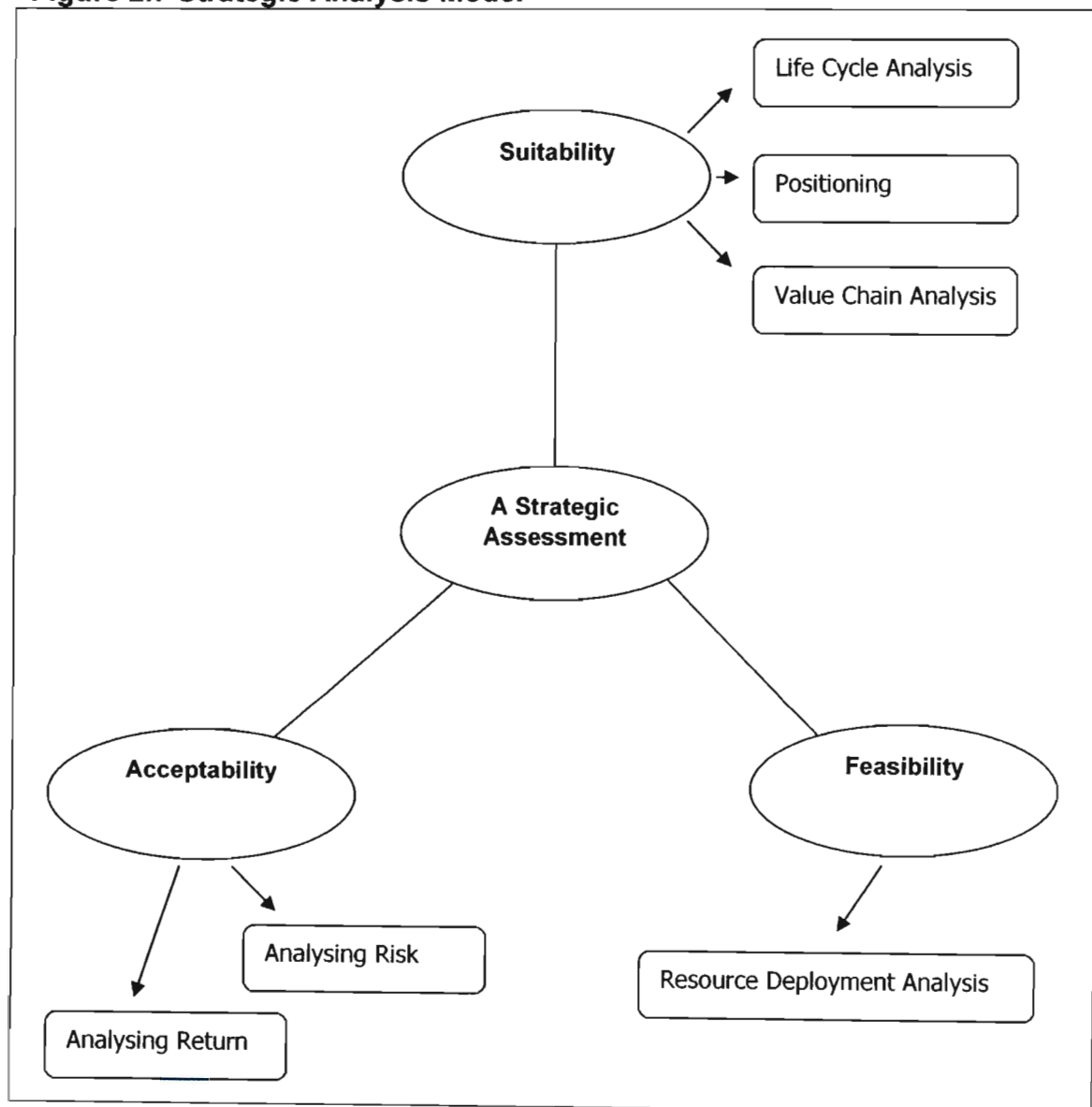
Johnson & Scholes (1998) put forward a number of tools to analyse feasibility in the strategy process. While their list is hardly exhaustive, it does provide 3 comprehensive tools to use namely Funds Flow analysis, Break-even analysis and Resource Deployment analysis. Funds Flow analysis and Break-even analysis each deals primarily with money as the determinant of resource fit. They provide an effective overview of whether the company has sufficient cash flows to be able to sustain investment in the project. A further important advantage of these processes is to determine whether there are any shortfalls between available funds and required funds to sustain the project. This allows the management committee to plan funds allocation in advance and gives them the flexibility to select the most suitable financing option available to cover the shortfall (if they in fact decide to pursue the option).

Another method to be used when assessing feasibility, independent of the details of finance, is a Resource Deployment Analysis. This process attempts to provide a basis for comparison between a number of strategic options based on the utilisation of company resources and competencies. In order for this process to take place, each of the options reaching this stage have to be broken down into key deliverables with regards to the implementation. Each deliverable will require the use of company resources and be delivered from a base of company competencies. Each strategic option will then be scored and compared based on the degree to which each strategic option fits the current organisational resources, as well as the organisation's ability to develop new competencies to

sustain certain options. While a Resource Deployment analysis is best utilised to analyse a number of differing strategic options, in the context of this case study it will be used to assess the feasibility of the attendance management program specifically.

Figure 2.7 provides a graphical illustration of the framework developed on the basis of the literature that has come under review (adapted from Johnson & Scholes, 1998) and applied to the case study.

**Figure 2.7 Strategic Analysis Model**



## **2.8 SUMMARY**

This chapter has assisted in clarifying the strategy process. It has served to highlight a number of view points put forward by experts within the strategy field. This review of corporate strategy literature has served to lay the foundations for the development of the corporate strategy model put forward in Figure 2.7. This diagram attempts to portray a structured framework against which strategic choices can be assessed. Figure 2.7 focuses specifically on the issues surrounding the implementation of strategic choices, the basis on which the case study has been written.

The field of Corporate Strategy can be broken down into two distinct stages. The first is to incorporate a variety of analytical tools to substantiate the generation of strategic options, the second being the assessment of these options to understand the impact of the implementation of such options on the company and the environment at large. The framework developed critically analyses the assessment of strategic options through three broad classifications of appropriateness namely suitability, acceptability and feasibility.

The suitability assessment involves analysis specifically investigating the position of the organisation within the environment at large, as well as the positioning of the company's products in terms of the product life cycle. Specifically, suitability is measured using the value chain analysis, positioning and life cycle frameworks. Acceptability is the second step in the process analysing the financial impact of strategic choices. It is important to not that a financial analysis focuses not only on return on investment but also the assessment of risk, both financially and organisation-wide. Finally, feasibility is the last check point before proceeding with implementation. Feasibility deals with the competencies and resources of the organisation to ensure that it has the resources and capabilities to enable it to pursue specific choices.

## **CHAPTER 3**

### **CASE STUDY**

### **3.1 INTRODUCTION**

Monitored Healthrisk Managers (Pty) Ltd. (MHM) is a joint venture company formed approximately 8 years ago. It operates within the medical aid and wellness industry in South Africa with clients in Cape Town, Durban, Johannesburg and Pretoria. MHM's two primary shareholders are Bay Union Financial Services and Managed Healthcare Systems (MHS). MHM is managed by three directors, a director employed from each of its parent companies and a managing director employed directly by MHM. Without delving into the details of the management structure of MHM yet, it is important to note that the primary responsibility for running the MHM business rests with the managing director, while the remaining two directors play an executive role in terms of providing an advisory / consulting role to MHM. The need for the creation of the services offered by MHM initially arose within the medical aid industry, with MHS providing the necessary expertise and Bay Union the brokering experience to land the deal.

Bay Union is a financial service consultancy offering a host of financial products from short term insurance brokering right through to employee benefits. It operates within the Kwazulu-Natal region only, with the majority of its clients falling into the SMME category. This being said, there are a number of large corporates serviced by Bay Union, which provide a large portion of their commission income. Although operating independently of Bay Union, MHM does offer a suit of products that Bay Union offers as a value add to its current client base. This is an area under development, with MHM increasingly looking towards Bay Union for sales leads and networking opportunities. In terms of Bay Union's contribution to the joint venture (over and above capital investment and access to an extensive client base) it is required to provide MHM with corporate offices. MHM currently operates from the Bay Union head office in Cowey road, Durban.

Managed Healthcare Systems (MHS) is the largest independent managed healthcare company in South Africa. MHS's suit of products is targeted specifically at medical aids and related companies / individuals e.g. general practitioners, medical scheme administrators etc. The managed healthcare industry is extremely competitive with companies under increasing pressure to be able to effectively measure and report on the impact of their products on service delivery and profitability. In essence, the concept of managed care revolves around the analysis and containment of costs. Medical schemes and administrators have been forced to operate in an environment heavily legislated by South African law. A key development is the restriction on sliding scale premiums based on risk ratings. What this effectively means is that medical schemes have no way of being able to selectively exclude individuals from membership nor can they make adjustments to premiums for certain high risk members e.g. diabetics, members with cardio vascular diseases etc.

This is an extremely important concept and has been a contributing factor to the success and longevity of the managed healthcare industry. The implications of this legislation are that high risk individuals are absorbed into the "risk pool" of funds, ultimately claiming at a higher rate than would ordinarily be the case for their monthly / annual contributions. This obviously has an impact on the sustainability of a medical scheme with the result being a focus on cost containment and wastage within the administration and authorisation of medical claims and expenses. The success of any managed care organisation can be attributed to a number of factors:

- The ability to effectively profile the entire population of the medical schemes and group them accordingly. Key to success is to identify those individuals most susceptible to an intervention to reduce costs. Examples of these kinds of interventions would include counselling sessions, the introduction of education material and creating an awareness of the effective use of the benefits as provided by medical schemes, to name a few.

MHM first and foremost is a wellness company. It was formed in response to the needs of the medical industry to be able to offer a suite of “wellness products” to its consumers. The concept of wellness in itself is extremely vague with a resulting confusion surrounding the form that it should take within the corporate and medical scheme environment. Ultimately, wellness encompasses any initiative which attempts to address the health of any individual, often taking the form of loyalty programs to encourage participation, meal planners and fitness programs. A number of other programs can be added on to this including health days, vaccinations, AIDs programs and absenteeism initiatives. This listing is hardly exhaustive but includes a number of products offered by MHM.

MHM itself is comprised of approximately 20 employees. The majority of these employees are skilled specifically to operate within a medical environment, general practitioners, nurses and psychologists. This in itself has a number of distinct advantages and disadvantages. With so many experienced practitioners working in the same company, there is seldom the need to seek external consulting services with regards to clinical matters surrounding product rollouts etc. Further to this, the development of in house products (an area of strategic advantage that MHM prides itself on) is based at the outset on established and recognised clinical principles, often a key differentiator when operating within the wellness industry. Unfortunately, this wealth of clinical expertise does not incorporate hard-nosed business skills, an already recognised shortfall limiting the future growth of the organisation. This is an area that MHM has acknowledged and has actively sought an individual to operate at a senior management level to help guide the operations of the company.

MHM's vision is detailed as follows:

*“Energi strives to be a recognised leader in the wellness industry in the provision of services and tools that support healthy behaviour change, resulting in enhanced performance and productivity. Our ability to customise our service offering ensures that we meet and surpass the unique needs of our clients who include individuals, companies, healthcare insurers and sports teams.”*



### **3.2 CORPORATE BRANDING**

During its development as a company, MHM primarily functioned as the back-end support to products and services offered by other role players. It was effectively the engine that drove service delivery and plugged seamlessly into the offerings of a host of clients. As such, there was no definite need for a strong brand to support the operations of the company.

However, having recognised the need to become identifiable as a separate entity in order to drive growth, particularly in the corporate sector, MHM underwent a process of rebranding. Hence the development of the corporate brand Energi. Monitored Healthrisk Managers as a company name carried with it a certain stigma due to its perceived links with Medical Aids and their products and as such it was difficult to market corporate products under these circumstances. Energi is the recognised corporate brand with which MHM takes all its products to market. Energi as a brand encompasses the vibrancy and energy of the organisation as a whole. While not specifically dealing in the medical aid industry only, MHM's core focus is definitely health. Its ultimate goal, to help people achieve the optimal level of well being resulting in superior levels of performance. Improved health brings with it higher levels of Energy, with the brand Energi signifying this link.

As such, the associated product listing inserted as Figure 3.1 falls under the Energi branding structure.

Figure 3.1 MHM Corporate Brochure

## CORPORATE

- ◆ Attendance Management
- ◆ Vaccination programme
- ◆ "The Corporate Athlete"  
®
- ◆ DISCUS Behaviour  
Profiling software
- ◆ HIV/Aids wellness  
programme
- ◆ Executive Wellness  
Assessments

## SPORT

- ◆ SharkSmart injury prevention  
and performance programme
- ◆ Healthcare consulting to  
professional sports teams



## Product Range

## HEALTHCARE FUNDER

- ◆ Telecounselling
- ◆ Wellness programmes
- ◆ Health Days
- ◆ Electronic lifestyle  
programmes
  - Kynetx ®
  - Health Profiler
  - Exercise Profiler
- ◆ Educational material

## SCHOOLS

- ◆ Adolescent wellbeing
- ◆ High performance  
interventions

### **3.3 MHM's PRODUCT RANGE**

Energi has a diverse range of products that it offers to the South African market. Its products have been grouped according to four major segments namely the Corporate, Sporting, School and Healthcare Funder (Medical Aid) sectors. In terms of contribution per sector, the segments can be ranked in the following order (most to least profitable):

- Healthcare Funder
- Corporate
- Sport
- Schools

The reliance on the Medical Aid sector has presented MHM with a number of obstacles, particularly in light of the fact that this industry is one which is becoming increasingly difficult to operate in. Both the sport and school sectors are niche markets, requiring a unique set of skills to operate successfully in. This coupled with the relatively small nature of these markets means that while profitable, they will never generate the kind of income to sustain an organisation of MHM's size.

The obvious market place to look to is the corporate sector. While corporates are coming under increasing scrutiny from the government with regards to Black Economic Empowerment (BEE) procurement policies, operating procedures etc, they have still have a relatively unregulated environment within which to operate. This market dominated by capitalism presents a wealth of opportunities for effective products able to positively influence a company's profitability.

Of MHM's corporate products, the attendance management program, discus profiling software and the executive wellness assessments have the greatest potential. While each is vastly different, they are all characterized by a large market which is relatively free of competitors. Even in markets where large competitors do exist, their penetration within these markets leaves much to desire, still allowing the entrance of new competitors. This combined with

encouraging margins makes these markets well worth pursuing. Although each of these products presents quantifiable opportunities, MHM's ability to tap into these markets has been limited up until this point. In order for MHM to successfully navigate the transition from the medical aid industry to the corporate sector it will need to pursue a new strategic approach to the promotion of its products in the corporate sector.

### **3.4 CURRENT STRATEGY**

MHM has operated predominantly in the medical aid industry. While this market has proved to be extremely profitable, it is a market that is under increasing threat. Sweeping changes have been implemented across the industry with regards to the administration of medical schemes, with the board of trustees being held increasingly accountable for decisions made affecting schemes and their operation. Under these circumstances the need for managed healthcare initiatives has been emphasised, although the form that the delivery of these services takes place is becoming increasingly regulated.

#### **3.4.1 Suitability – Current Operating Conditions**

MHM offers a counselling intervention that assists its parent company (MHS) in delivering its managed healthcare service. Specifically, MHM operates an outbound call centre aimed at high claiming medical aid members. Each of these targeted members is profiled and customised feedback and guidance provided accordingly. In many instances high claiming members are uneducated in terms of the correct utilisation of medical aid benefits, rehabilitation after illness and the correct usage of medicines. There are also cases where members are leading unhealthy lifestyles and are encouraged to take positive steps towards improved health using a number of techniques. The ultimate goal here is to be able to tie this intervention back to positive reductions in medical aid claims. To date this process has been successful but is an area that is under increasing pressure. In many instances trustees are reluctant to fund these kinds of interventions often seen as a 'soft' approach.

MHM's reliance on this aspect of its business is significant. The majority of its income is derived from a business unit that is seen as under threat with a substantial chance that it is not sustainable in the long term. The obvious implications of this have forced MHM's hand in terms of looking for new ideas / strategies to overcome this hurdle. Based on the premise that the service delivery itself is operating optimally and that it is changing environmental conditions driving the move away from MHM's managed care interventions, MHM have looked to develop in alternate areas rather than focusing on the refinement of its current service offered to medical aids. With this in mind, MHM has attempted to develop a product capable of providing significant, sustainable annuity income in the long run, aimed at a large target market to allow for long-term growth. The intention is to be able to develop a product capable of providing sufficient income to phase out the reliance on the medical aid industry. While this sector proves to be profitable MHM will continue to service it but this income would be seen as additional to other income that supports the business rather than crucial to its survival.

#### 3.4.1.1 The Attendance Management Program

MHM's solution to this strategic weakness is the development of the attendance management program. With this product MHM has identified a niche in the market where very few competitors currently operate in South Africa, with even fewer specifically offering attendance management programs. In essence, the program has been developed to service the following needs in the corporate sector:

- A lack of infrastructure to quantify the respective levels of absenteeism in their organisations.
- A poor understanding of the costs of absenteeism including direct and indirect costs.
- A lack of knowledge surrounding the issues creating an absenteeism profile – not everyone who takes sick leave is suffering from symptoms of

physical ill health. Without this understanding it is impossible to address the problem.

- Attendance Management is not given the priority that is required to overcome the problem as companies view it as a secondary issue with few line managers equipped with the tools to address the problem.

The attendance management program services all of the needs listed above. At its most basic level, it offers management comprehensive reporting on the numbers pertaining to absenteeism. A company absenteeism rate of 5% can be broken down to analyse provincial, divisional and even branch contributions towards total absenteeism. This allows management to focus on specific areas within their company that are displaying problematic profiles. With many attendance management programs, this is where the intervention stops. Companies are able to purchase software or a series of presentations to help address the problem and are then left to their own devices.

The essence of MHM's attendance management program is based on its current expertise in being able to effectively profile individuals and effect behaviour change based on these profiles. Using customised software, MHM plugs into the current payroll system of an organisation to obtain its absenteeism data. This data, obtained real-time, is then systematically analysed using a flagging mechanism. This mechanism is based on a number of triggers relating specifically to absenteeism. Examples of such flags would include:

- What percentage of sick leave is taken on a Monday and Friday in comparison to total sick leave taken by that staff member?
- Is this employee displaying the habit of taking consistent, short bursts of sick leave over an extended period?
- Have they taken more than 50% of their allocated sick leave in the first half of their current sick leave cycle?
- Have they been off ill on more than two occasions in the last eight weeks?
- Have they been off sick for more than two days sick leave without producing a doctor's certificate?

MHM's attendance management program goes beyond this. It operates in such a way as to become integral to addressing the obstacles faced by high levels of absenteeism. MHM does this by actively consulting to the business on an ongoing basis via the return to work interview. By profiling the employees of a targeted company, the attendance management program focuses on those individuals displaying potentially problematic profiles. A return to work interview is then conducted with each targeted employee every time unscheduled leave is taken. Where the employee is suffering from symptoms of physical ill health, nursing sisters conduct the interview to understand the illness. Based on this understanding recommendations are made to ensure that the staff member stays healthy and at work. This process could range from the analysis of medications prescribed by doctors to rehabilitation from hospital to educational material and behavioural change.

In effect this process serves as wellness program for a company's employees. The approach taken by the counselling interventions is always a soft approach. First and foremost the counsellor attempts to understand the employee and help them to move towards leading a healthier lifestyle i.e. on every sick leave occasion the initial approach is to believe that an employee has been off work because they are physically ill. Where this is the case, the nursing counsellor is qualified to provide the employee with the correct information and encouragement to ensure that they achieve the goal of improved wellness. However, a further important aspect of the attendance management program is to be able to uncover the host of other factors keeping employees from work. Some of these issues include the following:

- Financial difficulties
- Transportation problems
- Poor Nutrition
- Problems with Management
- HIV etc



What the attendance management program does is provide an open, confidential forum for this kind of communication to take place. A key factor contributing to the success of this forum is MHM's independence from the organisation that it services. Employees are assured of the confidentiality of their communication with the counsellor which ensures that a channel of communication remains open free from bias and prejudice which might occur during normal internal meetings within the company. The fact that MHM provides reporting to company executives on an aggregate level only, means that employees can speak openly without fear of being implicated, especially when dealing with sensitive organisational issues.

### **3.4.2 Acceptability – Risk and Return**

What separates the attendance management program from other wellness initiatives is the fact that the effectiveness of the program is clearly measurable. In many instances wellness programs are seen as 'nice to haves'. There has always been a question mark over the effectiveness of these programs, with senior managers unable to quantify their return on investment. In many instances the only factor contributing to the continued existence of these wellness programs is that they portray a caring attitude on behalf of the company towards its employees. It is then hoped that this caring attitude would be reciprocated by the employee thereby boosting motivation and productivity. The attendance management program manages to overcome this by clearly costing absenteeism before implementation. This costing function is easily calculated which helps reduce barriers to entry, particularly when selling to prospective clients. A basic costing example could be illustrated as follows:

*A prospective client has an absenteeism rate of 10% with an annual salary bill of R2 million. Without tying each sick leave occurrence to the individual's salary, an estimated figure could be obtained by multiplying the annual salary bill by the annual absenteeism rate. In this case the annual cost of absenteeism is R200,000 per annum.*



Calculating this figure serves two purposes. Firstly it highlights the need for the attendance management program. No company would be happy to accept a loss of R200000 per annum on their wage bill through absenteeism. By adding a value to absenteeism it drives the importance of the attendance management program home. The second purpose is that this figure serves as the benchmark against which the effectiveness of the attendance management program is measured. In order to be sustainable, the program has to reduce the costs of absenteeism by more than the costs of the implementation of the program. This measurability is the key, management is able to justify their investment in the program to their shareholders or the chief executive officer.

**Table 3.1 Cost Estimates**

**Attendance Management Program - Cost Estimate & Discounted Cash Flow**

**This estimate is based on the following assumptions:**

- 1 nurse counsellor can handle a maximum staff compliment of 3000
- A basic fee structure of R15 per employee per month will be used (market related figure)
- MHM will be using unencumbered capital and would require an appropriate return on investment 20.0%
- Smallest income would be generated from 1 client of 3000, hence calculations based on this scenario
- It has been estimated that the average client will remain on the Att Mx program for a period of 5 yrs
- A 10% growth in expense has been included year on year to cover inflation comfortably
- There is no initial capital outlay as all software development has been done free of charge by MHS

**Cost Estimate (per month)**

**Income**

Nursing Counsellor Salary	R 8,000.00
Supervisor Salary (prorata)	R 10,000.00
Outbound call costs	R 102.00
Office Admin	R 4,050.00
Rental (p/r)	R 2,000.00
Telephone	R 50.00
Stationary	R 500.00
IT Infrastructure	R 500.00
Software Support	R 1,000.00

Total Employees	3000
Cost per employee	R 15.00
Income / Month	<u><u>R 45,000.00</u></u>

Total Monthly Costs	<u><u>R 22,152.00</u></u>
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Table 3.1 provides an overview of the costs associated with the implementation of the attendance management program. In order to generate a return on investment, MHM has to ensure that the monthly costs of the implementation of the program are significantly less than the current costs of absenteeism at the time of implementation. Included in Table 3.1 are a number of assumptions on which the cost estimates are based. Based on current utilisation levels of existing services provided by MHM similar in nature to that of the attendance management program, it is projected that 1 nursing counsellor has the capacity to deal with a maximum company size of 3000 employees. Included in this assumption is the fact that approximately 20% of the organisation would fall under the flagging mechanism and would require active interventions. The majority of the profiling function would take place electronically based on information transferred from the target company's payroll system. A R15 fee structure falls in line with costings of similar services currently available in the market place. A 20% return on investment is generally the targeted return in terms of MHM's assessment criteria when considering investment in new projects. The remaining assumptions; a 10% growth in expenses, no initial capital outlay for software development and scaling fees in terms of revenues generated are all conservative estimates used to ensure that the costs associated with implementation of the program reflect a true cost, if not slightly conservative. For the attendance management program to be viable, it needs to ensure that, at a minimum, the costs of absenteeism are reduced by R45 000 per month.

MHM has costed the attendance management program to generate income on a monthly basis, similar to that of an annuity income. Included in the pricing structure is a performance-based incentive. MHM has elected to take a lower monthly service fee provided that it participates in the cost reductions as a result of the implementation of the program. This has proved to be a very powerful selling tool as organisations are more comfortable to initiate the program on the

understanding that the service provider's income is also resting on the success of the program.

### **3.4.3 Feasibility – MHM's Resources and Competencies**

From MHM's perspective, the strength of this program is its labour intensive nature. It cannot function effectively without the counselling intervention. Unlike other products available in the market, it cannot function on a knock-and-drop basis. In many instances, attendance management programs are sold as software packages which plug in to a line manager's existing reporting mechanisms. While this is effective in empowering the line manager to make decisions made on detailed information, it doesn't allow the service provider to develop a relationship with that client. MHM's counsellors are integral to the success of the program. Without their involvement, the program cannot function effectively.

The counselling function used to screen employees when conducting the return to work interview is where the key differentiator lies. It is easy for another IT company to replicate the system used by MHM to implement its attendance management program. However, it is far more difficult to be able to replicate the expertise of MHM's counselling staff and the process flow between the systems and the nurses, each with 10yrs experience in an outbound call centre. Further to this, MHM's majority shareholder MHS, has a dedicated IT division serviced not only by highly skilled IT consultants, but also experienced medical professionals.

MHM's current resources have very little spare capacity. It operates in a number of areas by outsourcing a variety of services to key service providers. MHM relies on the office resources of Bay Union in Durban and the IT infrastructure and expertise of MHS in Johannesburg. Its current staff compliment of approximately 20 medical professionals are all engaged in a number of

initiatives. However, in the short term there is the possibility that some of these resources could be moved to accommodate the implementation of the attendance management program, particularly if rolled out in pilot form.

### **3.5 CONCLUSION**

As a relatively small firm still in the developmental stage of its growth, MHM faces a vast array of challenges and opportunities. Up to this point MHM has recognised that it has been unfocused, often pursuing a variety of opportunities without clearly analysing and targeting specific choices congruent with its current business model. This has hampered the kind of growth that MHM has expected as it finds itself engaged in a number of smaller activities, each operating in isolation of each other. As a result MHM has looked to focus itself on a restricted number of core products, able to sustain the company in the long run.

MHM's reliance on a single large contract in the medical aid industry has left it vulnerable in the event that the contract is not renewed. This strategically weak position has triggered extensive analysis to help fine tune a strategy that allows MHM to overcome this. Having looked at the products available at the time, MHM felt it necessary to develop a new product in response to this need. While the development of the attendance management product was something new to the market, it was based on a core competence critical to the service delivery in the medical aid market. The importance here is that while the program is new to the market, several of its core components are currently areas of expertise within MHM. As a result, the risk associated with service delivery on the attendance management program has been reduced.

Perhaps the most crucial question that needs to be answered is whether the attendance management program can realise the benefits as strategised. The structure of this product has been developed in such a way to ensure sustainable annuity income in the long run. A further important aspect to the

attendance management program is its ability to serve as a springboard for the sell-on of other MHM products. Chapter 4 attempts to logically assess the decision to develop the attendance management program.

# **CHAPTER 4**

## **STRATEGIC ANALYSIS**

## **4.1 AN ASSESSMENT OF SUITABILITY**

Suitability was discussed as the first step in determining whether a strategic option had all the correct elements to succeed within an organisation. It can be seen as the first step of a three-step process to critically assess a strategic option. When testing suitability an attempt is made to position a choice within the context of the company as well as the market as a whole. The testing progression of strategic options from suitability to acceptability and finally feasibility is a filtering process. Ideally a strategist attempts to use the most effective tools of strategic analysis that require the least amount of detail possible to ensure that time is saved on the filtering vast amounts of detail on options that could easily be rejected after a brief analysis.

### **4.1.1 Life Cycle Analysis & Positioning**

The case study provided some valuable insight into the current operations of MHM, as well as the environment within which it operates. The first step in assessing suitability is to examine the positioning and life cycle analysis of the attendance management program in relation to MHM and its environment. Positioning refers to how and where a company operates within an existing market. MHM operates in four distinct markets namely the medical aid industry, the corporate sector, the school environment and professional sporting teams. In each of these sectors, MHM offers a premium product. The service that it provides does not complement the core component of any potential client i.e. it does not directly enhance manufacturing quality, service delivery etc. In this regard, MHM faces a difficult task to be able to justify its existence within an organisation. Particularly in the wellness industry, it is extremely difficult to be able to show a return on investment. This being said, corporates, particularly, expect a high level of service delivery. In order to provide this level of service, MHM has had to charge a premium. Although MHM operates at a different position in each of its four target markets, the attendance management program



is aimed at the corporate sector and as such any positioning analysis in terms of this product will be conducted in this sector.

Arthur D Little provides a comprehensive framework within which to analyse an organisation. On the Y-axis Little plots the company's position within a particular market while on the X-axis he plots the developmental stage of that market. In terms of this matrix MHM finds itself in a tenable position. The majority of MHM's operations occur in the medical aid industry. This industry has proved extremely lucrative and has given MHM the freedom to be able to invest in the corporate sector. At present its position is tenable as although its penetration in the corporate sector is limited, few competitors operate within the field of attendance management. In terms of the product life cycle, absenteeism and the containment of costs is definitely a field yet to be exploited. Few organisations are equipped to be able to effectively manage this problem, with a 'delivery gap' occurring as existing service providers battle to comprehensively address the problem. This area would have to be classified as an almost untouched market, in terms of Arthur D Little's matrix, Embryonic.

Little goes on to recommend the following actions for an organisation in a tenable position in an embryonic market:

- Start-up
- Grow with industry
- Focus

MHM and its attendance management program appear to fit in well with these recommendations. This program, provided it receives the capital investment required to launch a new product to market, has the ability to generate substantial revenue for MHM in the short term. A further factor contributing towards driving the launch of the attendance management program is the fact that this product has been developed by MHM themselves. This gives them the ability to customise the program as and when they see fit, enhancing their ability

to grow the product with the needs of the market as these change. This is crucial to success as the requirements in a newly developing market continue to change for some time during the market development stage before stabilising. MHM has to have the ability to shadow and predict these needs to ensure that the attendance management program remains competitive and appropriate. Crucial to any positioning exercise is to not only analyse the current situation of an organisation and its environment but also to have a long-term view of the development of industry. The impact of the HIV epidemic continues to have a devastating effect on the South African work force. This coupled with the impact of other diseases such as diabetes, malaria, cancer etc seems to indicate that levels of absenteeism within the South African work force will continue to rise. As businesses begin to experience the costs of these frequent absences, the need for a service that helps alleviate this problem will continue to rise. The attendance management program is ideally positioned to meet this need in a market that appears will continue to grow into the future.

#### **4.1.2 Value Chain Analysis**

With the current tenable position of MHM and the new attendance management program, it becomes increasingly important to look at core competencies and their relationships within an organisation. Porter has put forward a valuable tool in the value chain analysis, linking core competencies and value drivers into the organisational framework. Although specifically developed with the manufacturing sector in mind, it still assists in triggering some valuable insight when applied to other industries. In order to understand the impact of the attendance management program in terms of Porter's Value chain, it is first necessary to structure the MHM operation (from a corporate perspective) into the value chain.

The primary value chain activities can be listed as follows:

- Inbound logistics
- Operations
- Outbound logistics
- Marketing and Sales
- Service

Bearing in mind that MHM operates in the service industry, in the majority of cases, there are certain aspects of the value chain that need to be modified and others that require emphasis. In particular, inbound logistics is an area that has little, if any, role to play at MHM. From an operations perspective, the value-creating activities of the company are crucial to its success. Product development and service delivery in terms of these products is essential to the sustainability of these products. In MHM's case, products represent services delivered by MHM packaged in a variety of forms e.g. the medical aid counselling service is sold as a product but is a service delivered by MHM to medical aid administrators i.e. the product is service orientated with no physical form. In MHM's case outbound logistics and operations occurs simultaneously in most cases, it is very difficult to separate the service from the delivery itself. As with all businesses, the role of marketing & sales and after sales service delivery is important to continue to drive volume through the business. Although brief commentary of the value chain has been made here, it is sufficient to allow the placement of the attendance management program in this chain.

Having considered Porter's primary value chain drivers (excluding Firm Infrastructure, HR Management, Technology Development and Procurement) it has become evident that the key to value add (synergy) in terms of differentiation, cost leadership and technology lies in the operations/outbound logistics channel. This is the heart of the MHM business and is an area that the attendance management program will fit in to. The value that this program offers is two-fold. As previously mentioned, the development of the attendance

management program was based on existing core competencies within the organisation. The majority of MHM's staff are medical practitioners with skills and knowledge vital to the success of the program. In terms of operations, the attendance management program capitalises on existing areas of expertise and packages them into a product that will generate significant revenue for MHM, far greater than revenues currently generating using existing resources.

The second benefit of the attendance management program is the linkage that it creates between outbound logistics and marketing & sales. The attendance management program has been developed to operate as a modified stand-alone wellness program. This program then operates as the framework on which an entire wellness program can be built. This creates the opportunity for MHM not only to be able to develop extensive working relationships with its clients but also to be able to cross sell a host of other products which MHM offers that complement the attendance management program. This factor is often overlooked but is one of the fundamental principles of marketing; it is far easier to sell to an existing client than sell to a new client. It is possibly in this area that the attendance management program has the greatest synergistic effect. It serves as the framework upon which a variety of other products can be sold while still serving as accurate indicator of the effectiveness of any sell-on products. Ultimately, each of these products can be tied back to the savings associated with reductions in absenteeism. As long as the savings generated from the implementation of the attendance management program and other sell-on products outweighs the costs of those programs, the company is able to justify its investment in those products.

## 4.2 AN ASSESSMENT OF ACCEPTABILITY

An assessment of acceptability involves two primary issues, that of risk and return. An assessment of return on investment will be made using a discounted cash flow technique to calculate the net present value of the investment decision.

### 4.2.1 Analysing Return

In order for this assessment to be undertaken, a number of cost estimates have been done in connection with implementation of the attendance management program. These estimates have been obtained from MHM themselves and were summarised and expanded on in Table 3.1. Table 4.1 outlines the discounted cash flow analysis based on these cost estimates.

**Table 4.1 Discounted Cash Flows**

<b>Projected Cash Flows</b>				
Period (yrs)	Expense	Income	Cash Flow	
1	R 265,824.00	R 540,000.00	R 274,176.00	
2	R 292,406.40	R 540,000.00	R 247,593.60	
3	R 321,647.04	R 540,000.00	R 218,352.96	
4	R 353,811.74	R 540,000.00	R 186,188.26	
5	R 389,192.92	R 540,000.00	R 150,807.08	
			<b>R 1,077,117.90</b>	

<b>Discounted Cash Flow Tables</b>		
Period	Disc Factor	
0		1
1	0.833333333	
2	0.694444444	
3	0.578703704	
4	0.482253086	
5	0.401877572	

Discounted Cash Flows				
Period	Cash Flow	Disc @ 20%	NPV	
1	R 274,176.00	0.833	R 228,480.000	
2	R 247,593.60	0.694	R 171,940.000	
3	R 218,352.96	0.579	R 126,361.667	
4	R 186,188.26	0.482	R 89,789.861	
5	R 150,807.08	0.402	R 60,605.984	
			<b>R 677,177.512</b>	

Table 3.1 highlighted a number of key assumptions in the calculations of the estimated cash flows. Perhaps the key assumptions in connection with the cost estimates and related cash flows can be highlighted as follows:

- Staff utilisation in terms of required interventions
- R15 as a market-related charge associated with similar services
- 5 year life span with each customer

These three assumptions have been targeted because they have the greatest impact on long-term profitability. Staff Utilisation is the assumption carrying the highest risk. Overall utilisation of the product and the required nursing interventions cannot be benchmarked against any other services within the market. The attendance management program is so unique to the market that no product addresses absenteeism from a similar perspective. Staff salaries, as in many businesses, are one of the key cost drivers. Should the required interventions be more frequent or of a longer duration than initially estimated, the nursing counsellors required to effectively implement the program could double. In these circumstances the profit margins available in the service delivery would be much smaller. However, MHM has the ability to absorb some of this potential overflow in the short-term with existing resources in the company. This aspect of the service delivery will be revisited when dealing with the what-if analysis.

The second key assumption relates specifically to the R15 monthly charge per employee. Again, MHM's approach to addressing absenteeism issues is unique to the market. There are a number of interventions available that attempt to address the same issues, but through different channels. EAP's (Employee Assistance Programs) are a good example of such a service delivery. EAP's provide comprehensive coverage of absenteeism and a host of other psychological factors. Ultimately, EAP's justify their existence by benchmarking their performance against reductions in absenteeism. It is not uncommon for EAP's to be implemented at R30 per employee, often with only an 8% utilisation rate (an 8% penetration of an EAP is considered successful within the market place). EAP's came under the spotlight approximately two years ago where they received extensive coverage as the answer to harnessing an organisation's untapped Human Capital potential. At this time organisations often made poor decisions with regards to the effectiveness of these programs, not considering the difficulties in terms of implementation and penetration. EAP service providers also attempted to drive a number of interventions through the organisation to increase profitability, interventions which were not always in the best interests of the organisation. In order to justify an annuity fee in the region of R30 per employee per month, EAP practitioners boosted the variety of services available to include factors such as financial and legal services, traditionally beyond the scope of a psychological intervention. Where these service providers were clever is that these services were really offered on the understanding that few, if any, employees would really utilise these services.

The combination of these factors has resulted in organisations now questioning the viability of these programs. MHM's attendance management program offers many of the benefits of an EAP program, at half the cost. With many industries reassessing the contribution of their current service providers, a potential window of opportunity has arisen for MHM to exploit.

The final assumption is that relating to a five-year service delivery period with a prospective customer. The cash flow analysis illustrates the fact that the total value of cash flows diminish with time. Therefore, even if the attendance management program were to continue for a period of three years, any such implementation would still be highly profitable. One of the greatest advantages of developing long-term relationship with a client is the ability to leverage off that relationship, it is far easier to extend the products sold to existing clients than to attract new clients.

#### **4.2.2 Analysing Risk**

Although it appears that the implementation of the attendance management program is profitable, the risk associated with such an implementation has yet to be explored. Incorporated in the analysis of return was some brief commentary on some of the assumptions used to calculate such a figure. This analysis was purely theoretical and pitched at a high level, ultimately not effectively illustrating the associated risks based on the assumptions used in the development of the program. This has triggered the development of a rudimentary what-if analysis tool to be able to incorporate the risk associated with implementation of the program by altering key assumptions and then assessing the impact of these changes.

Table 4.2 details the what-if analysis tool put forward. Although simple in nature, it allows the adjustment of certain key assumptions specifically relating to costing and the effectiveness of the program to see whether the program remains viable over a wide range of conditions. This particular what-if analysis allows for the manipulation of the following variables:

- Number of employees within an organisation
- Average salary per employee



- Organisation absenteeism rate (and the associated direct & indirect costs of absenteeism)
- Charge of the program per month/annum
- Success of the intervention (by altering the % reduction in absenteeism)

In order for the attendance management program to be successful, the costs associated with implementation of the program need to be significantly less than the savings generated. While the costs of absenteeism have been broken down into both direct and indirect costs, the difficulty surrounding measurement of indirect costs means that organisations have to be sold on the basis of reductions in direct costs. Indirect costs can then be used to cement a position within an organisation, but if the costs of the program outweigh the savings on a direct basis, an organisation will not invest in the product. A number of scenarios have been entered into the what-if analysis tool, with the results presented in Table 4.3.

**Table 4.2 Cost of absenteeism Calculator (the what-if tool)**

Enter figures into grey shaded areas.

Number of days off given		Absenteesim rate given	
Number of employees	3000	Number of employees	3000
Avg salary bill	3000	Avg salary bill	3000
Working days per year	720000	Total salary bill/month	R 9,000,000.00
Number of days absent	28800	Absenteesim rate	4.00%
Total salary bill/month	R 9,000,000.00		
Cost of absenteeism/month	R 360,000.00	Cost of absenteeism/month	R 360,000.00
Indirect costs/month	R 1,440,000.00	Indirect costs/month	R 1,440,000.00
Cost of absenteeism/year	R 4,320,000.00	Cost of absenteeism/year	R 4,320,000.00
Indirect costs/year	R 17,280,000.00	Indirect costs/year	R 17,280,000.00

MHM monthly charge per employee

**R 20.00**

Cost to Target company per month

**R 60,000.00**

Cost per year

**R 720,000.00**

MHM monthly charge per employee

**R 15.00**

Cost to Target company per month

**R 45,000.00**

Cost per year

**R 540,000.00**

Required interventions		Alternative Costing	
Number of staff	3000	Charge pepm	15
Absenteeism rate	4.00%	Monthly cost	45000
Working days	720000	Cost Abs/yr	R 4,320,000.00
Absent days	28800	Reduce Abs by	20.00%
Occurences/mnth	2400	New rate	3.20%
Occurences/day	114	new cost/yr	R 3,456,000.00
Red Flags as % of pop'n	30.00%	Cost savings	R 864,000.00
No of flagged occurences	34		
<b>Nurses Required</b>	<b>1</b>		
If we take the costing at R20 per employee per month, income <u>pa</u> of			R 540,000.00
At R10 per employee plus <b>30%</b> of savings <u>pa</u>			R 799,200.00

There are technicalities involved with the commission structure, the income for referral should not continue indefinitely. It should cover 10% for one year only.

**Table 4.3 What-if Analysis results**

	Scenario A	Scenario B	Scenario C	Scenario D	Scenario E
Employees	3000	3000	1000	1000	6000
Avg Salary Bill	3000	3000	3000	3000	5000
Absenteeism Rate	4%	2%	2%	4%	2%
Charge per Employee	R 15.00	R 20.00	R 15.00	R 15.00	R 15.00
% Success	20%	30%	30%	20%	30%
Rand Savings	R 864,000.00	R 648,000.00	R 216,000.00	R 288,000.00	R 2,160,000.00
Overall Cost of Prg	R 540,000.00	R 720,000.00	R 180,000.00	R 180,000.00	R 1,080,000.00
Company Benefit	<b>R 324,000.00</b>	<b>R -72,000.00</b>	<b>R 36,000.00</b>	<b>R 108,000.00</b>	<b>R 1,080,000.00</b>

Based on these results it is evident that the attendance management program appears to be robust. Even under employee numbers ranging from 1000 to 6000, the savings generated by the attendance management program still outweigh its costs. Although this appears to be favourable, there are still a number of factors that the management team of MHM should consider when approaching target companies.

Firstly, the higher the cost of absenteeism in the target organisation the easier reductions in those costs will be able to offset the costs of implementing the program. The costs of absenteeism in an organisation are driven by two factors, namely the average salary of each employee and the total number of days off from work (the company absenteeism rate). The ideal target company would be those organisations with a high average salary and a high absenteeism rate. A high absenteeism rate for this program's purposes would be any rate higher than 4%. An absenteeism rate of 4% means that every employee in the organisation is taking their full leave entitlement every sick leave cycle i.e. every employee is off from work for 30 days every three years due to ill health. Very few organisations are able to absorb this magnitude of lost productivity without experiencing a significant reduction in their overall competitiveness.

A further factor to consider when analysing the risk of pursuing the roll-out of the attendance management program is the percentage success rate of program.

Looking back at the scenarios run through the what-if analysis tool, it is evident that fairly conservative figures have been used to generate Rand savings. Existing attendance management programs in the market place have experienced success rates as high as 50% - 60% reductions in absenteeism. In these circumstances the benefits of the program would far outweigh the costs, further justifying the existence of the program.

An important factor to consider when assessing the risk of implementing the attendance management program is that development of the program has already taken place. Further to this, many of the costs associated with developing the program were absorbed by MHM's parent companies. MHS in particular was instrumental in the development of the program, ensuring that all software development was undertaken by its IT division (Medsys). At present the only costs that MHM have had to absorb is the investment of their time into the program. This further reduces their risk as they now have a developed program, which has cost them very little in rand terms, which is ready to be implemented at a prospective client. MHM also has the current capacity to be able to absorb the staffing requirements of the implementation of the program up to a certain point. The risks of implementing the program are further reduced by the fact that MHM do not have to be tied into further employment contracts to support initial implementation of the program.

### **4.3 AN ASSESSMENT OF FEASIBILITY**

A number of tools are available when attempting to assess the feasibility of a strategic decision. This assessment can take a variety of forms but each contributes towards the final goal of a feasibility assessment, namely determining whether the organisation has the resources and competences to deliver a chosen strategy. A financial analysis is of crucial importance when assessing feasibility, issues such as break-even analysis and funds flow analysis attempt to match company cash flows with the required investments needed to successfully implement a particular strategy.

In MHM's case, the financial calculations performed during the acceptability assessment are sufficient for the needs of this research in terms of covering financial viability. Based on these calculations it is evident that the attendance management program has the ability to generate significant cash in-flows in the short term. The majority of investment up until this point has taken the form of hours invested in development, rather than capital investment. As a result, MHM has been able to absorb a large amount of this risk already. In terms of cash flows, the service offering provided by MHM relies on quality services (generated from existing resource capabilities) rather than the purchase and resale of goods, resulting in significant cash in-flows with implementation of the program. The focus of this feasibility assessment must cover the ability of MHM's resources to meet the needs of its client when servicing the attendance management program.

#### **4.3.1 Resource Deployment Analysis**

The feasibility assessment covers a resource deployment analysis, an ideal tool to analyse this relationship particularly in determining the ability to meet resource requirements. Table 4.4 illustrates the resource deployment analysis tool used for MHM's attendance management program.

**Table 4.4 Resource Deployment Analysis**

Resource Deployment Analysis Tool					
What are the key aspects relating to implementation of attendance management					
Key Deliverables	Associated Resources	Present at MHM	Current Spare Capacity	Is this sufficient	Can it be Acquired
<b>Clinical Expertise</b>	GP's, Nurses, Psychologists	Yes	20%	Yes	N/A
<b>Customised Software</b>	IT Resources / Staff	Yes	5%	No	Yes
	Software Support	Yes	5%	No	Yes
	Ad Hoc Development	Yes	5%	No	Yes
	Synchronisation with target customer payrolls	Yes	5%	No	Yes
<b>Call Centre Infrastructure</b>	Office Space	Yes	10%	No	Yes
	Call Protocols	Yes	N/A	N/A	N/A
<b>Staffing Requirements</b>	Nursing Counsellors	Yes	15%	No	Yes
	Manager	Yes	20%	Yes	N/A
	Contracted service providers	No	100%	Yes	Yes
<b>Marketing/Sales Functions</b>	Expertise	No	N/A	No	Yes
	PR (Exposure)	No	N/A	No	Yes
	Marketing Materials	Yes	0%	No	Yes
	Sales Force	No	N/A	No	Yes

The Resource Deployment Analysis (Table 4.4) highlights a number of important issues for MHM to consider. Perhaps the two most crucial areas in the resource deployment tool are whether MHM have the resources required for the implementation of the attendance management program and where they do have the required resources, is the spare capacity available sufficient for an efficient implementation of the program?

In terms of clinical expertise, the staff compliment of MHM, as well as its controlling shareholder (MHS), is primarily made up of medical practitioners. This medical staff compliment includes pharmacists, doctors, anaesthetists, surgeons etc. Although each of these staff members are employed in other aspects of the business, each has the capacity to fulfil an advisory role where required for the attendance management program. This expertise is crucial to ensure that the clinical guidelines governing the protocols used in the handling of health issues during implementation are at industry best practise standards.

One of the unique feature's of MHM's attendance management program is the software on which the entire operation functions. This program provides the platform for the entire program. It is fundamental to the identification of flagged employees, a key distinguishing factor which drives utilisation. The success of the program is dependent on the ability to highlight employees displaying potentially problematic profiles and then interacting with these employees in an attempt to alter their behaviour. The resource deployment analysis tool indicates that MHM does have the resources to support the software program. However, strictly speaking, this is not true. MHM has access to a comprehensive team of IT specialists, but each of these is employed by MHS in Johannesburg. MHS has formed a subsidiary company called Medsys which specialises in providing turn-key solutions specifically in the medical aid industry. Even with access to this extensive resource, the analysis confirms that there is not sufficient capacity at present for the support of the attendance management program. This is as a result of two factors, perhaps both political in nature.



MHM is recognised as very much the junior company, in essence just embarking on its growth phase after taking some time to establish itself in the market place. MHM is continually competing with MHS for allocation of IT resources at Medsys. It is only when a situation becomes critical that MHM receives priority in terms of IT development and the associated allocation of resources. Further to this, Medsys has already spent a significant amount of time developing the attendance management program at no cost to MHM. It is their opinion that the program has been developed sufficiently to allow for a rudimentary implementation at a client. Until such time as a client has been sourced for the attendance management program, Medsys have effectively refused to develop the program further, although this would never be reduced to writing.

This scenario has inhibited the effective development of the program with the end result being that the certainty with which the program can be implemented efficiently at the first client is questionable. This continues to constrain the program but is a factor which MHM has had to work around. In addition, the staff at Medsys are already working under extremely tight deadlines. In the event that the program was to be implemented at a client, Medsys would only be able to absorb the software development requirements in the short term. Ultimately further IT resources would have to be sourced for the program to be sustainable, even if it were on a contract basis.

The Call Centre infrastructure and protocols are both key to the successful development of the attendance management program. At present, MHM runs an extremely successful outbound call centre from Bay Union's offices in Durban. Based on this existing infrastructure, MHM has the expertise to seamlessly integrate the attendance management program requirements into this call centre. Unfortunately, MHM is constrained by the office space within the Bay Union environment. Should the attendance management program grow bigger than 3000 profiled employees the company would run out of office space. While MHM

has the capacity to purchase additional premises, one might question the timing at the peak of the property bubble in South Africa.

With a company of MHM's size, there is very little spare capacity in terms of available staff resources. Although this is a reality, there is sufficient flexibility for MHM to be able to sell the program without having to hire staff before a client has been sourced. This provides MHM with more room to manoeuvre as the existing nursing counsellors are able to address any issues in the short term. Where needed MHM would have to hire additional nursing counsellors. Another key aspect of the attendance management program is the outsourcing of level 2 interventions to experienced practitioners in the market place. Over a number of years MHM has developed relationships with an extensive network of service providers throughout the country and across multiple disciplines. MHM does not have the expertise to be able to address all possible organisational issues and as such will rely extensively on this network to help drive productivity in target companies forward. In this regard it would be desirable for MHM to formalise these relationships with contracts to ensure the smooth functioning of these partnerships when required.

The final aspect raised in the resource deployment analysis tool is that of capacity to provide an effective marketing function. MHM at present does not have the resources or expertise to be able to perform this function. This is a critical factor that needs to be addressed in order for the attendance management program to grow successfully. It would not be practical for MHM to employ a marketing practitioner full time, with MHM utilising external consultants on an Ad Hoc basis to address the marketing needs of the company. A product that is as extensive, and expensive, as the attendance management program needs a concerted, effective marketing initiative to launch it to market. This will need to be supported by marketing material developed specifically for the program to create market awareness.

The analysis of resources at MHM has revealed that there are sufficient resources and levels of expertise to be able to launch the product. However, any significant level of growth would have to be supported by the growth of these resources through outsourcing or hiring. Particularly in the short-term, MHM should be able to effectively implement the attendance management program.

No research paper would be complete without accompanying recommendations. The preceding analysis has been performed as the foundations upon which MHM can base its future strategic decisions, both as a company and in terms of the viability of the attendance management program. What follows are the recommendations based on the information uncovered in the previous four chapters.

## **CHAPTER 5**

# **RECOMMENDATIONS**

## **5.1 INTRODUCCION**

A thorough strategic analysis would not be complete without associated recommendations based on the findings of this research paper. Although dominated by medical practitioners, MHM's staff have had the foresight to undertake strategic analyses on an ongoing basis. Not only have they undertaken such analysis, but have done so affectively. Their thorough knowledge of the environment within which they operate has enabled them to have a clear understanding of where the environmental opportunities and threats have arisen.

A clear indication of this is MHM's recognition of the fact that the medical aid industry is under increasing threat. As government legislation continues to regulate market forces within this sector (a prime example is legislation prohibiting a sliding-scale contribution scheme based on risk categories), a number of medical aids are finding it increasingly difficult to operate. If this trend continues the niche market serviced by managed healthcare companies will continue to shrink, intensifying competition and in all likelihood constraining the successful operation of a number of companies within this sector. What is evident then is that in order for MHM to continue to grow in the future, it will need to find alternative sources of income.

The management team of MHM have driven this company towards the corporate sector for a number of years, learning the market and investigating possible unserved needs within this sector. It is based on this experience in the corporate sector that MHM have developed their attendance management program. When developing this innovative program, MHM have had to answer two important questions. Firstly, is there a market or need for such a program, and if so, is it currently serviced by existing practitioners? Secondly, does MHM have the expertise to be able to develop and deliver this product?

## **5.2 BENEFITS OF IMPLEMENTING THE PROGRAM**

After having analysed the attendance management program (seen as the solution to identified strategic gaps at MHM) using a framework assessing suitability, acceptability and feasibility, it has become evident that this program has the potential to bridge the gaps identified by MHM. On all accounts, the attendance management program has proven to be robust and profitable, able to operate in a variety of circumstances.

The revenue streams generated by the attendance management program are significant and accrue as annuity income on an ongoing basis after implementation. This is a significant advantage as it provides cash flow in the short term able to cover expansion and expenses. One of MHM's primary concerns has consistently been its reliance on revenue from the medical aid market. Particularly with the longevity of this market in question, this concern has become heightened. The attendance management program facilitates a move away from this strategically weak position by providing an income stream capable of developing into a significant contributor to the bottom line over time.

Additionally, the attendance management program has been developed to operate in two phases (a primary and secondary intervention). The primary intervention is designed to screen the population base for risk based on a number of triggers. These triggers highlight potentially problematic employees with which MHM will interact. These employees are seen to be symptomatic of the organisation as a whole. The counselling intervention run from the outbound call centre serves to screen these employees. Where they are physically sick, the counsellors are trained to assist these employees to ensure that they recover from their illnesses in as short a time frame as possible. Where other psycho-social problems are the underlying cause for absenteeism, this information is fed back to the target company to be addressed at a group level.

This second feedback loop highlights the need for a secondary intervention. Where possible, MHM will then be the service providers used to address these issues. There will be instances where MHM does not have the skills/resources to implement these secondary interventions (e.g. rudimentary financial skills training) in which case a reputable service provider will be recommended. These secondary interventions allow MHM to cross sell a wide variety of its products to a target company where the need arises. MHM operates specifically in the wellness arena in the corporate sector providing services which seamlessly plug into the attendance management program. Examples of such service include Executive Wellness Assessments, Health Risk Assessments, Vaccination programs, Wellness programs, HIV/AIDS interventions etc.

The value of the sell-on of additional products based on the requirements of secondary interventions is crucial to MHM's marketing strategy. At present the definition of corporate wellness is vague within the market place. Many senior executives are not familiar with the concept of wellness and the benefits associated with meeting the wellness needs of their organisation. When approaching companies it is increasingly difficult to present a suite of products which operate in isolation of each other. There is a need/opportunity to define the concept of wellness in the corporate sector. By providing a corporate executive with a tool which logically links the various components of a wellness initiative together, and ties it back to measurable savings through reductions in absenteeism, the executive is able more easily conceptualise the concept and the benefits of investing in such a product.

A further strength of the attendance management program is that it capitalises on the strengths of MHM and channels these resources into a new market opportunity. MHM has 10 years of experience in telephonic counselling interventions, with a proven, successful history. By repackaging this counselling in a different format to address a different need, MHM has managed to develop a new product that is still able to boast a successful history of 10 years. This is due

to the fact that fundamentally the process and the systems are the same, just channelled to achieve a different objective. This strength also creates an enhanced perception of a smooth rollout in a target organisation. The key competencies used to launch the attendance management program and in operation and working effectively at MHM at present.

Finally, the attendance management program provides MHM with the opportunity to grow into a significant player within the wellness industry. After having rapidly grown in to an operation of 20 employees, MHM has now stabilised/stagnated in its growth. Further opportunities for expansion in the medical aid industry are largely determined by MHS (MHM's majority shareholder based on Johannesburg). In order for MHM to grow it has to be reliant on creating its own growth opportunities outside of the medical aid industry. The attendance management program allows for this opportunity, especially with the market place currently wide open. The potential for the program to cement itself within the corporate sector in KZN and nationally is significant, more than sufficient to allow for the growth that MHM is looking for.

### **5.3 ADVANTAGES OVER COMPETITIVE PRODUCTS**

The conceptual model upon which the attendance management program is based is unique to the market. The idea of a collaborative care model incorporating the employer, healthcare funder and general practitioner to collectively manage the same risk pool to ensure a co-ordinated effort to reduce this risk is a very powerful tool. This coupled with sound medical principles for the education and rehabilitation of employees means that MHM has a well developed product.

Traditionally, there are 4 parties with a vested interest in the health of an individual. Firstly there is the employer who needs the employee to be healthy to ensure that they are at work and productive. Secondly the medical aid is



interested in keeping members healthy to reduce claims, ultimately improving the profitability of the scheme as a whole. Thirdly, the insurer is managing the same risk pool from a disability perspective. In order ensure insured employees continue to contribute to the scheme, the insurer needs to manage the risk of exposure to disability claims by actively being involved in the health seeking behaviour of individuals. Finally, the General Practitioner is managing this risk by helping his patients to recover from illness as effectively and swiftly as possible.

Each of these parties has a vested interest in managing the health of an individual although at present they operate in isolation. Traditionally very protective of their data and the techniques used to manage this risk, it has been very difficult to get any of these parties to communicate in a meaningful way to ensure the most effective tools are used to keep individuals healthy. The attendance management program has the ability to do this by accepting information from each of these parties and co-ordinating the movement of individuals through these resources to ensure appropriate treatment is given. This presents a significant opportunity in the market. Few, if any absenteeism management programs have attempted to do this, in many instances not even recognising the need to ensure that a co-ordinated approach to the management of wellness is initiated.

MHM's attendance management program is reliant on the expertise of its nursing counsellors to drive the success of the program. This is a unique approach to the management of absenteeism where the return to work interview is conducted by an independent third party. The strength here is two-fold. Firstly, by conducting the interview as an independent third party, an environment is created where an employee can afford to be open and honest without fear of victimisation. Secondly, the ongoing interventions performed by the nursing counsellors help to establish a close relationship with the target organisation. This relationship helps to create an environment of trust and lays the foundations for further cross-selling of products to that client. This is in stark contrast with a number of absenteeism

management programs which operate as stand-alone software packages. In these cases, once the sale of the software has taken place the relationship with the client ceases (except in instances where support for the software program is required). The provider does not have the ability to develop a detailed understanding of the needs of an organisation.

A further advantage of MHM's attendance management program is that is developed in house. This allows the customisation of the product to suit the needs of any potential client. This can often be the turning point in a sale where customers often have unique requirements which they would need addressed. In addition to this, the fundamentals upon which the attendance management program are built have been developed by experienced medical professionals. The protocols used are based on scientifically verified clinical principles ensuring the highest levels of service delivery.

#### **5.4 LIMITATIONS OF THE PROGRAM**

The preceding analysis has shown that the implementation of the attendance management program appears to meet the criteria of suitability, acceptability and feasibility. The principles upon which the program has been developed are sound and MHM has the resources and capabilities to be able to implement the program.

However, the model upon which the attendance management program has been developed is limited specifically to the white collar market. Throughout its entire history, MHM has operated within the white collar market, specifically in the financial services sector (four of its biggest clients are ABSA, Standard Bank, FNB and the Reserve Bank). Consequently, the competencies upon which it bases all its interventions are suited specifically to this market. Fundamental to the success of the attendance management program is the effectiveness of the outbound call centre run by the nursing counsellors. It is easy to conceive how

difficult it would be to run an outbound call centre service in a manufacturing environment where the majority of employees do not have access to a telephone. Under these circumstances it would not make sense to call an employee off the manufacturing line to have a discussion with a counsellor that could range from anything between 3 minutes to 30 minutes. Further to this, this type of counselling would need to take place in a confidential environment and not on the factory floor, a further constraint to the successful implementation of the program.

The impact of this limitation is to significantly reduce the available market for the product. Within South Africa, the surge of awareness with regards to corporate wellness has taken place in the blue collar worker, a market which is not ideally suited to an implementation of the program. While it is difficult to implement in a blue collar environment, it is not impossible. Creative alternatives can be sought to overcome certain hurdles e.g. placing the nursing counsellor on site rather than running the counselling from an outbound call centre.

In addition to this, a number of organisations have criticised the role of the nursing counsellor in the return to work interview. Many organisations are reluctant to outsource this role as they feel it is a critical management/HR function. Executives prefer to have their own managers develop a relationship with their subordinates rather than have an external consultants performing this function. This is fundamental to the model put forward by MHM and presents another significant hurdle which needs to be overcome when attempting to sell the product to the market.

## **5.5 CONCLUSION**

Based on what has been explored so far, it appears as if the attendance management program is the solution to MHM's strategic weaknesses. Certainly from a conceptual perspective, it provides numerous advantages over products currently available in the market. Further to this, the product is able to effectively benchmark itself against current levels of sick leave within the organisation, assigning a cost to this sick leave and then measuring the benefits of the implementation of the program against the resulting savings. This provides a rands and cents figure to a wellness intervention, traditionally a very difficult objective to achieve. What results is a strong financial reason supporting the ongoing implementation of the attendance management program; firms are able to quantify a return on investment, provided of course that the program is implemented successfully.

Although the attendance management program offers a unique set of advantages in comparison to competitors' products in the market place, there are still a number of hurdles which must be overcome. Principally, these hurdles relate to the environment within which the attendance management program can function effectively. In order to sell this program successfully, MHM must be selective in the organisations that it approaches. Specifically, target organisations must be from the white collar sector, with a significant number of staff members having access to their own telephone line.

The key to the success of this program will be implementation. It has become clear that MHM has the resources required, through its two major shareholders in Bay Union and MHS, to be able to effectively implement the program. The challenge will be to ensure that it receives sufficient buy-in from both parties to ensure that it is given access to those resources.

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